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The Rise of a Market for Industrial Securities, 1887-1902

The performance of industrial securities in the depression of 1893–97 went far toward ridding the financial community of the idea that such securities generally lacked investment quality. This shift in investing sentiment was a factor of major significance in accelerating the merger movement, the promoters of which, in turn, broadened the market for industrials still further. This they accomplished by offering wide participations in promising ventures, by sweetening those participations through extensive recourse to preferred stocks, and by employing promotional techniques new to the field of industrial security marketing. The creation of a broad market for industrial stocks, hitherto highly inflexible administrative tools, meant vastly increased fluidity of ownership. By the turn of the century the transition was well under way from closely held, "inside" ownership of American business to semipublic, "outside" hands.

In recent years historians of business have been moving toward a conviction that may be of major significance in the teaching of history. The turn of the twentieth century, it would appear, saw the introduction of so much that was new in American business as to mark the end of an old system and the beginning of a new. This conviction is based on the observation of a series of phenomena, each of which might serve as the title of an independent article. The Emergence of Big Business. The Development of Techniques to Administer Multi-plant Operations. The Rise of National Advertising. The Emergence of a Desire by Employers to Woo Workers to the Capitalistic Standard. The Spreading Practice of Hiring Professional Business Managers. The Launching of Schools Devoted to Business Education. The Impact of Government Regulation on Business Practices. The Dispersion of Stock Ownership in Business. The Rise of Markets for Industrial, Municipal, Utility, and Foreign Government Securities.

This article deals with only one of these developments, but one so fundamental as to underlie many others. Toward the close of the nineteenth century the nature of business ownership was in many instances imposing a block to progressivism in business affairs. Expansion of facilities and needed changes in business organization were to a considerable degree waiting upon the introduction of more flexible capital structures. This article traces how that flexibility was attained and sketches the origins of what has become a modern commonplace — the quasi-public nature of industrial ownership in the United States. Without a ready market for industrial securities, the spread of stock ownership would have been delayed, the emergence of professional business managers would have been postponed, and the creation of big industrial mergers would have been made very much more difficult.

Ownership of Industrial Companies in the 1880's

Without at least a brief glance at the status of industrial ownership in the 1880's, one can hardly appreciate the enormous change that was to occur in the following decade. Before 1890 a man with excess capital to invest was likely to put his money into real estate. If he chose to buy securities, he had a relatively narrow range from which to select. The principal type of security investment was in railroading. Industrial securities, except in the coal and textile industries, were almost unknown. True, by the end of the 1880's the aggregate capital invested in industry may have equaled the capital tied up in the nation's system of rails.[1] But the railroads were large, well-established, widely known enterprises with securities traded on organized stock exchanges, while the industrials, though numerous, were small, scattered, closely owned, and commonly regarded as unstable. The very term "industrials," meaning securities of industrial companies, did not come into use until the end of the decade, and even then it generally appeared in quotation marks. Not until the mid-nineties was computation of the Dow, Jones industrial stock average started. And not until 1900 did John Moody begin his manual of industrial securities.[2]

[1] The U.S. Census for 1890 states that the fixed and current assets invested in manufacturing alone (a figure which therefore does not include the other types of industrial companies) was $6.5 billion, while the capital invested in railroads was $10 billion. The census readily states that its figures for manufacturing capital are probably incomplete.

[2] The term "industrials" first began to appear in this country in 1889; in England the first written use, according to the New English Dictionary, was in an 1894 issue of the *Daily News*.

By the late 1880's the industrialization of the United States had completed what may be regarded as the first stage of its development. This stage had been typified by small single-plant companies serving limited markets. Changes in the making would soon alter this pattern. The railroad industry had matured; the continent had been spanned and interlaced; the market for railroad securities had become well established; the heavy railroad demand for capital, relative to the investment funds available, had begun to diminish, and funds were beginning to seek new investments. As a result, a new era was about to occur in industrial America.

With certain important exceptions the industrial companies standing on the threshold of this new development were closely held and without a public market for their securities. All too little is known about most of these companies in that early stage of their development. Their history lies buried in the anonymity of census reports, and many of them have vanished from memory with the disappearance of their names and even of their corporate records. It will probably be years before enough material has been uncovered to give us a detailed picture of those times. For the present we must rely on scattered sources and a general knowledge of the kinds of problems that have always beset small business.

The difficulties facing small businessmen in that period were of two general types. First, risk capital for expansion purposes was difficult to obtain. Owners of small industrial enterprises frequently had to borrow short-term money for long-term investment, hoping to repay their loans out of large immediate earnings. That they frequently went bankrupt when business conditions took a turn for the worse is a recurrent story in the history of small ventures. Yet to have obtained long-term money from outside sources was nearly impossible, partly because few people of capital were willing to put money into small enterprises and partly because the owners themselves seldom would consent to let the contributors have any voice in the business.

Secondly, it was difficult for an owner of sunk capital to transfer

John Moody, affiliated with the banking firm of Spencer Trask & Company, had sensed a demand for an industrial manual in the mid-nineties. He vainly tried to interest his firm in publishing such a manual and then to persuade Henry V. Poor to add an industrial supplement to his railroad manual. But Poor saw no future in industrials, and the severe depression caused Moody to postpone action. Finally deciding to go ahead on his own, he had his volume ready for publication in 1900, just in time to profit from the culminating industrial and financial boom, when investors were seeking information and most corporations were seeking publicity and thus were willing to supply the information. (Conversation, John Moody with Marian V. Sears, 12 May 1955.)

any part of his investment to an outsider. Even though highly successful, the enterprise might not attract buyers. To run a business, particularly a specialized manufacturing enterprise, required peculiar skills in addition to capital. These skills were usually possessed only by persons already operating in the industry. Consequently, potential buyers generally were to be found only among competitors. This fact often meant that the owner of a business found the opportunity to sell limited to a merger of his firm with that of a competitor.

The infrequent opportunity to complete a sale had kept the going price of industrial concerns at a low level. A common sales figure was "three times earnings" – in other words, a price that was expected to reimburse itself out of profits within three years, a basis of valuation that is not uncommon in the sale of small businesses even today. By comparison a man who owned part of a sound railroad or textile mill could sell his share at a price ranging from seven to ten times earnings. Clearly the owner of industrial capital was at a serious disadvantage because of the lack of an established and recognized market for industrial securities.

This situation was aggravated by the troubles inherent in providing management succession for small and closely owned businesses. By the 1880's the number of firms experiencing a transfer of management from one generation to the next was very large. Often this kind of transition was not a happy one. Perhaps the founder provided no direct heirs to carry on in his place, or the heirs were unequal to the responsibilities bestowed on them, or they simply wanted to enjoy the fruits of the family fortune rather than continue as owner-managers. Frequently it was the sisters and the cousins and the aunts who wanted to sell what they had inherited – either to put the money to consumptive uses or to diversify their fortunes.

As the problems of capital inflexibility and management succession converged with the intensely competitive conditions of the 1880's, pressures began to develop that were too great to be withstood by old-style business institutions. A great rearrangement of the business structure began to take place creating, as it proceeded, the big, widely owned industrial enterprises that we know today.

Originally imprecise, the term "industrial" underwent refinement in those years until it came to include securities of four specific categories of business: manufacturing, distributive, extractive, and processing.[3] A brief look at these four categories and the degree to

[3] Types of enterprises whose securities are not included in these categories:

which the sunk capital of each was being held in place by an undeveloped security market will give some inkling of the nature and magnitude of the financial problems facing businessmen of that day.

First, however, a word about the range in size of industrial companies in the 1880's. In general the following may be said: companies with a net worth (invested capital plus reinvested earnings) of more than $10 million were few in number and in size ranked *very large*;[4] companies of $5 million to $10 million were also fairly rare and, by the standards of that day, *large;* $2 million to $5 million companies were common and about *medium* in size; companies worth up to $2 million were numerous but relatively *small.*[5] Because the data for that period are so unreliable, we shall refer to companies only by these four classifications and not by specific dollar figures.[6]

MANUFACTURING. In general, the manufacturing enterprises of the 1880's belonged in the *small* category. The partnership form of organization predominated, permitting ownership to be transferred only with great inconvenience and often only after the dissolution and re-establishment of the firm. Where enterprises were incorporated and, therefore, had outstanding securities, these were generally held by a small group of persons and were infrequently offered for sale to the public.

Perhaps the most vivid illustration of the close ownership of manufacturing in the 1880's is provided by the fact that some of the decade's leading manufacturing enterprises were family owned. At least half the stock of the *very large* Singer Manufacturing Company was owned by a single family, the descendants of Edward Clark, cofounder of the enterprise; Isaac Singer's stock had been left to a number of descendants but was not to find its way into trading on

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railroads, utilities, banks, insurance companies, investment companies, street railways, canals, shipping companies, express companies, pipelines, docks and warehouses, ferries, and land companies.

[4] This figure should be compared with the capitalization of the leading railroads of the day. By 1889 each of the country's ten largest railroads had more than $100 million of net worth and the largest of them all, the Pennsylvania Railroad, had over $200 million.

[5] A roughly similar breakdown in modern times would be: *very large,* over $1 billion; *large,* $100 million to $1 billion; *medium,* $5 million to $100 million; *small,* up to $5 million.

[6] It is often not possible to obtain net worth figures for industrial companies in the 1880's. The *Commercial and Financial Chronicle,* while an extremely useful reference work for the whole period, is not exhaustive in listing companies formed or their capital structures. Consequently, we have often been forced to make estimates based on stated capital, total assets, net earnings, number of people employed, and the like.

the exchanges until the 1890's. Carnegie's combined steel interests, another of the *very large* manufacturing enterprises of the 1880's, were closely held partnerships and were not to be converted to corporate form until 1892. The *very large* McCormick Harvesting Machine Company was already an incorporated enterprise, but its ownership and management were still tightly held by the McCormick family. To be sure, the *very large* Pullman Palace Car Company of Chicago was widely owned. This company was, however, more a railroad than a manufacturing concern (about two-thirds of its assets were tied up in the operation of its sleeping car business). It was the only manufacturing company regularly traded on the New York Stock Exchange in the 1880's. Thus in some of the country's leading manufacturing enterprises there was no public trading of securities and in only one was there trading on the New York Stock Exchange.

There were, to be sure, a few instances that departed from this general pattern, among which were companies in the cotton textile industry of New England, oldest of the great industries fostered by the nineteenth century. Much of the capital in this industry derived from mercantile sources, and the unusual way in which it was invested owed much to its special origins. Textile capital was usually organized into corporate form. Ownership was from the outset dispersed among many persons. Even great textile princes like Arthur Lyman or T. Jefferson Coolidge held dominant ownership in few mills, but had substantial holdings in many.

Despite this dispersion of ownership, the common unit of textile enterprise was *small*. Even the largest of the New England mills (such as Amoskeag in Manchester, Merrimack in Lowell, Pacific in Lawrence, and Wamsutta in New Bedford, just to name leaders in the centers of production) may be classified as *medium* in size.

Trading in textile shares dated from the early years of the industry and accounted for the fact that in the 1880's the country's leading organized market for industrial securities, such as it was, was the Boston Stock Exchange. The market was a quiet one; frequently the par value of textile securities was $1,000. Most mills issued only common stocks. Many of these stocks were regarded as of investment quality and were looked on as adequate security for loans. Thus, unlike the owners of most other manufacturing enterprises, the shareholders of textile stocks were not likely to regard their capital as irretrievably sunk in a given plant or company.

Distributive. Only two of the country's distributive enterprises operated on a *large* scale, the two great dry goods wholesalers in

New York and Chicago: H. B. Claflin & Company and Marshall Field & Company, both partnerships. In the *medium* class were the bigger department stores: John Wanamaker in Philadelphia; R. H. Macy & Company in New York; and the retail branch of the Marshall Field business in Chicago. Throughout the decade these distributive companies were all partnerships.

Elsewhere in the country's distributive system, business was being conducted almost exclusively by partnerships and on a *small* scale. The Great Atlantic & Pacific Tea Company, F. W. Woolworth & Company, Montgomery, Ward & Company, and Sears, Roebuck & Company were already in existence and growing rapidly, but they still had not moved out of the *small* category and only Montgomery, Ward had abandoned its partnership form of organization.

EXTRACTIVE. In several of the extractive industries nearly all the enterprises were small partnerships or proprietorships. This was especially evident in oil drilling and gold mining, although there were occasional exceptions, such as the *large* and publicly traded Homestake Mining Company of George Hearst (father of William Randolph) and the oil drilling activity of the *very large* Standard Oil group.

Copper and iron mining were becoming important and were represented by a few *large* widely owned companies. In copper there was the *large* Calumet & Hecla mine of Northern Michigan, a publicly owned Boston-promoted enterprise with securities traded on the Boston exchange, and in iron mining, the Minnesota Iron Company and the Tennessee Coal, Iron & Railroad Company. Both of these mining companies were owned by a substantial number of investors, although the securities of only the second found an active market.

Coal mining, the largest of the extractive industries at that time, was by the 1880's closely allied with the railroad business and was by then organized somewhat along railroad patterns. The railroads were the coal companies' best customers, and financial connections often bound the two together. The kind of incentive that might lead an investor to put money into railroad securities might with equal logic lead to an investment in coal, and the range of securities in the one — bonds, preferred stocks, and common stocks — were similar to the range in the other. Consequently, coal companies, while in a strict sense belonging to the industrial category, held a position in the securities market which, like the position of the Pullman company, was more nearly akin to railroading than to industry. As a result, Henry V. Poor thought it perfectly natural to include

both Pullman and the leading coal companies in his railroad manuals. Coal securities offered a few opportunities for investment outside the railroad field, but they did not represent a separate and distinct class of investment, as manufacturing securities would in the next decade. For this reason we have excluded coal securities from further consideration in our study of the developing market for industrial securities.

PROCESSING. There remains to be considered the processing branch of industry. The first industrial companies to attract on a large scale the attention of the investing public were to be found not in manufacturing or distribution but in the processing industries (oil refining, sugar refining, lead smelting, and the like). These companies were to have a history peculiarly their own, for here developed the "trust" form of organization, the forerunner of the merger movement.[7]

THE "TRUST" MOVEMENT OF THE 1880'S

Price competition in the 1880's had been severe in nearly all businesses but in none more so than in the processing industries. The first of these industries to develop the "trust" form of organization to deal with competitive stresses was the oil refining business under the leadership of John D. Rockefeller's Standard Oil. Following a preliminary agreement in 1879, the owners of several *small*, *medium*, and *large* refineries agreed in 1882 to put their securities in the hands of a group of trustees, receiving in exchange, as evidence of ownership, pieces of paper known as "trust certificates." Several advantages were expected to accrue from this arrangement. The refineries were to be run on a co-ordinated basis and in the words of the original "trust" agreement, "in the manner . . . most conducive to the best interests of the holders of the said trust certificates." Strength from unity was looked for, both against other refiners and against violent price fluctuations. Perhaps of even greater immediate importance, the "trust" arrangement was thought to be a method of circumventing the vague but troublesome aversion of the common law to corporations doing business in several states.

Clearly *not* among the objectives of the Standard Oil "trust" was

[7] An important exception to this pattern of development was the meat packing branch of the processing industry. These firms did not enter into a "trust" arrangement in the 1880's and did not become widely held in that period. Even the *very large* Armour & Company remained a partnership. Gustavus Swift incorporated his *very large* business in the 1880's and sold stock to his New England distributors, but the stock did not find its way into the hands of the public until the 1890's.

the search by shareholders for a means of freeing their capital investment. Standard Oil "trust" certificates never sought an active public market; there was always someone in the inner group ready to buy certificates as they became available. The "trust" certificate, however, was a new financial instrument which other businessmen recognized as having potential marketable value, and many of those who subsequently formed "trusts" in imitation of Standard Oil took the opportunity to unload part or all of their investment by selling their certificates to the public.

In addition to Standard Oil there were five industries in which "trusts" were formed on a *very large* scale: cotton oil refining (1884); linseed oil refining (1885); whiskey distilling (1887); sugar refining (1887); and lead smelting and refining (1887). We know of no *very large* industrial combine formed before 1889 on other than the "trust" basis, and of no *very large* "trust" formed by other than processing companies.[8]

Based on what happened in the six *very large* "trusts," certain pertinent generalizations regarding the "trust" movement can be made.[9]

(a) In each case, a large majority of the industry combined in the "trust." There were, however, examples of companies that were invited but, not being satisfied with the terms, declined to join. Some companies were included only to have their plants closed, for overcapacity was one of the problems the "trust" was established to deal with.

(b) When a "trust" was formed, the entering partnerships had to

[8] The cattle "trust" of the late 1880's, which ranked as *very large*, may be an exception. Little has been written about it, however.

[9] Case studies made of these six "trusts" serve as the basis for these conclusions. Among the most useful sources on "trusts" and mergers of the period are the following: Arthur S. Dewing, *Corporate Promotions and Reorganizations* (Cambridge, 1914); Eliot Jones, *The Trust Problem in the United States* (New York, 1921); Luther Conant, Jr., "Industrial Consolidations in the United States," *Quarterly Publications of the American Statistical Association* (March, 1901).

To date, much of what has been written about the "trusts" has been economic theorizing. We need more complete studies based on the records of the constituent companies before we can draw final conclusions about the "trust" movement. Most writing has concentrated attention on why "trusts" *came into being*. Wherever attention has been given to why the constituent companies *went out of existence* the assumption has been made that the reason lay in the difficult competitive nature of the times. But research into the history of the large processing "trusts" has led us to believe that there were, in fact, a number of reasons why people sold out to the "trusts" and that in total these subordinate reasons were perhaps as important as the competitive factors that have heretofore received such exclusive attention.

incorporate so that owners would have securities to exchange for "trust" certificates. On incorporating, many of the constituent companies based their capitalization on optimistic estimates of their earning power, with the result that their net worth considerably exceeded the value of their tangible assets.

(c) The rates of exchange of securities for certificates often appeared on paper to be highly favorable to the original owners. The reasons for this were many, but among them was surely the psychological advantage to be gained by bringing weaker companies into the combine on the basis of a one-for-one exchange of shares, with the inescapable result that the stronger companies had to be brought in on a several-for-one exchange. In consequence, the total par value of the "trust" certificates typically exceeded the combined pars of the constituent companies and led to the charge that values were being watered. However, owners of the certificates, if they had any financial sophistication whatsoever, took these exchange ratios into account when estimating the value of what they received, and typically thought of their securities as worth much less than par.[10]

(d) The trusteeship organization was a device for centralizing administration of a number of plants, often scattered over several states. We need to know more about how these early multi-plant enterprises were managed, but in the early years local executives seem to have remained in their positions. For legal reasons the trustees wished to preserve the fiction of complete decentralization, but it seems likely, especially in the more successful "trusts," that the locus of authority soon shifted to headquarters.[11]

(e) In at least one "trust" and perhaps in several others,[12] a reason for the formation was a desire to liquidate an investment. H. O.

[10] As an exception, Standard Oil Company certificates typically had a market value nearly twice par, although there was little trading in them and they were not even listed on the Unlisted Department of the New York Stock Exchange.

[11] For example, in the New York legislative investigation of the sugar refining "trust," H. O. Havemeyer testified that there was no unity of control whatever; "all corporations attended to their own business," but, having possession of the stock, the trustees "could put in such officers as they liked." State of New York, Senate, *Report of the Committee on General Laws on the Investigation Relative to Trusts*, 1888, "Proceedings," p. 31. See also U.S. House of Representatives, Committee on Manufactures, *Report in Relation to the Sugar Trust and Standard Oil Trust*, Report No. 3112 (Washington, 1889); U.S. Industrial Commission, *Report on Trusts and Industrial Combinations*, XIII (Washington, 1901); U.S. House of Representatives, Special Committee on the Investigation of the American Sugar Refining Company, *Hearings* and *Report No. 331* (Washington, 1911).

[12] Not long after the cotton oil "trust" was established by midwestern and southern firms, important New York interests were able to acquire enough shares to effect a change in management.

Havemeyer, the dominant figure in the sugar refining "trust," immediately after the "trust" was formed, offered a large portion of his certificates for sale on the open market, although he continued as trustee and remained in an executive capacity.

(f) Since the "trust" certificates were issued almost entirely in exchange for shares of individual firms and not for new capital, there was no need for the financial services of bankers or brokers. Enough owners wished to dispose of their shares, however, to make relatively large blocks available to the public and to command the kind of market attention that the smaller component companies had never been able to do. Without concerted marketing pressure, a trade sprang up outside the organized mechanism of the New York Stock Exchange. Soon the demand became so great that the Exchange had to make special arrangements so that its members could deal in "trust" certificates on an "unlisted" basis — an arrangement made necessary because the shadowy legality of the "trusts" precluded them from conventional listing.

(g) Unlike the railroads, the "trusts" gave to their shareholders very little information about operations and earnings. Public charges of unjustifiable increases in prices of products, fraud, and stock market manipulation by insiders also contributed to wariness of investors and resulted in severe fluctuations in the price quotations of certificates.

By the closing years of the 1880's, however, "trust" certificates were attracting the eager attention of New York speculators. The trade in sugar refining certificates alone by the last half of 1889 averaged 150,000 shares a week — in contrast to a volume of 2,000 in Pullman shares. Activity in "trust" certificates outdistanced the entire list of industrials traded in Boston. In those few years the Boston Stock Exchange lost its pre-eminence in industrial securities, and New York stepped into a position of leadership from which it has never receded.

More importantly, those years marked an abrupt change in the trend of investments, for thenceforth and continuing down to the present, industrial stocks gained increasing prominence as an investment for the nation's savings, while at the same time the ownership of industrial enterprises, once so frozen and restricted, rapidly gained mobility and dispersion.

The closing years of the 1880's deserve attention for still another reason. In 1889 New Jersey passed a law permitting holding companies to be organized. Had the holding company concept been regarded as legal a decade earlier, it seems likely that none of the

"trusts" would have been formed. The organizers would have used the holding company device instead. It is significant that no large "trust" was created after passage of the New Jersey law and of the federal Sherman antitrust law. The new mergers took the holding company form instead, and within a few years most of the "trusts" had converted into holding companies.[13]

So much, then, for the background out of which was to emerge a public market for industrial securities. Attention had been drawn to them by the activity in "trust" certificates. Until 1889, however, the certificates had been attractive to speculators only. A means of interesting the conservative investor remained to be found.

A Market for Industrial Securities Develops: 1890–1893

Broadly considered, the investment market of the early 1890's gained its growing supply of industrial securities in three ways: (a) from "trusts" that were converting to corporations; (b) from mergers that were forming in imitation of the "trusts" but along corporate lines; and (c) from companies with owners who wanted to take advantage of the developing market to unload a part of their equity. No longer were processing companies the leaders in getting their securities into public hands; all categories of industrials were represented.

The type of security that was to play a key role in the emerging market for industrials was the preferred stock. True, industrial preferreds were never to be so actively traded as industrial commons, but they were to possess two special claims to distinction: first, as a means by which industrial proprietors could liquidate a part of their sunk investment without endangering their position of control; secondly, as an inexpensive and safe means by which companies themselves (as distinct from their stockholders) could obtain funds. This latter function — the use of preferreds to raise new capital — will be discussed later in this article.

One of the advantages enjoyed by preferred stock was the already existent familiarity of the market place with the concept of a preferred security. Railroad preferreds had been known in this country for over five decades.[14] And in England industrial preferreds were already in general use.[15] Consequently, the issue of preferred stocks

[13] Standard Oil, earliest of the "trusts," was the last to convert to the holding company form (1899).

[14] See George Heberton Evans, "The Early History of Preferred Stock in the United States," *American Economic Review* (March, 1929, and March, 1931).

[15] Out of the first 100 companies listed in the "Commercial & Industrial"

by American industrial companies in the early 1890's was favorably received by an already conditioned body of investors.

In the period 1890–1893[16] at least 23 American industrial companies issued preferred stocks of investment quality.[17] Three of these preferred issues were put out by converted "trusts," 12 by new mergers, and 8 by one or another form of recapitalization (see Table 1). Approximately half the mergers of that period did not put out preferred issues,[18] but when it is remembered that industrial preferreds, especially in manufacturing, were a novelty to the market, the number that suddenly appeared is remarkable.

It is impossible to make any comprehensive generalizations about the industrial preferreds of the early 1890's; they were as yet too new.[19] But a few observations are possible. These preferreds were almost always exchanged for outstanding securities. In many instances, however, the management of the issuing company immediately made some kind of organized effort to help stockholders (including themselves) market their preferreds to the general public. It is curious and perhaps revealing that nearly all these preferreds, when first distributed, were sold for exactly par regardless of their dividend rates; apparently the market had not yet refined its method of valuing these new securities. More than half of them were listed on the New York Stock Exchange, and usually a few months after issue.[20] (Frequently a company's common was listed at the same

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section of the (London) *Stock Exchange Official Intelligence* for 1890, 38 had preferred stock issues. At about this time a number of English-owned companies, especially breweries, were organized in the United States with preferreds figuring prominently in their capitalization. For an early use of preferred stocks in Germany, see *Hunt's Merchants' Magazine & Commercial Review* (Nov., 1859), p. 586.

[16] The precise limits of the period are October, 1889, when the first "trust" (cotton oil) incorporated, and May, 1893, when the market for new issues was suddenly blighted by financial panic.

[17] We have arbitrarily considered a preferred stock to be of investment quality if it was issued by a company of at least *medium* size, if it was being referred to in the financial journals, and if it was paying dividends. Much of the information in this section was gleaned from the circulars of brokers who were advertising preferred issues for sale. Baker Library at the Harvard Business School has a remarkable collection of early brokers' circulars.

[18] There were, however, only five *large* or *very large* mergers in that period which did not issue preferreds: Illinois Steel Company, Lake Superior Consolidated Iron Mines, National Wall Paper Company, New York Biscuit Company, and Celluloid Company.

[19] In the 27 May 1893 issue of the *Commercial and Financial Chronicle*, "Investors' Supplement," an article on "Preferred Stocks of Industrial Companies" discusses the variability and occasional indefiniteness of the terms of certain preferred stock issues.

[20] During the years 1890–1893 the New York Stock Exchange listed about

TABLE 1

Investment Grade Industrial Preferred Stocks Issued, 1890–1893

Name of Issuing Company	Date Organized	Initial Capital (000,000 omitted) Preferred	Common	Bonds	Preferred Marketed by Brokers	Commercial Banks and Trust Companies	Investment Bankers	Destiny of Company
TRUSTS								
Am. Cotton Oil Co.[a][b]	1889	$10.2 [c]	$20.2 [c]	$4.0 [c]	....	....	....	Part of Best Foods, Inc.
Am. Sugar Refining Co.[a]	1891	25.0	25.0	....	....	....	....	Still in business
Nat'l. Lead Co.[a]	1891	15.0	15.0	....	....	....	....	Still in business
MERGERS (*very large*)								
Am. Tobacco Co.	1890	10.0	15.0	....	....	.... [d]	....	Still in business
Nat'l. Starch Mfg. Co.	1890	4.1 [e]	4.5	3.3	x	....	....	Part of Corn Prod. Refining Co.
Nat'l. Cordage Co.	1890	5.0	10.0	....	....	.... [d]	x	No longer operating
Gen'l. Electric Co.[a]	1892	4.0	29.8	4.0	....	....	....	Still in business
U.S. Rubber Co.	1892	13.5	13.5	....	x	....	x	Still in business
U.S. Leather Co.[a][b]	1893	52.0	53.0	6.0	....	....	....	No longer operating
MERGERS (*medium & large*)								
Am. Soda Fountain Co.	1891	2.5 [e]	1.2	....	x	.... [d]	....	No longer operating
Herring-Hall-Marvin Co.	1892	1.8	1.5	....	x	....	....	No longer operating
Am. Type Founders' Co.	1892	4.0	5.0	....	x	x	....	Now Daystrom, Inc.
Trenton Potteries Co.	1892	1.2	1.8	....	x	....	....	Part of Crane Co.
Mich.-Peninsular Car Co.	1892	5.0	2.0	2.0	....	x	....	Part of ACF Industries
Hecker-Jones-Jewell Co.[a]	1892	3.0	2.0	2.5	....	....	....	Part of Standard Milling Co.
RECAPITALIZATIONS								
H. B. Claflin Co.	1890	6.0 [e]	3.0	....	.... [d]	.... [d]	....	Part of Barnhart, Parr & Fagan
Procter & Gamble Co.	1890	2.2	2.2	2.0	.... [d]	....	x	Still in business
Thurber, Whyland Co.	1891	1.5	1.0	....	x	.... [d]	....	No longer operating
R. I. Perkins Horse-Shoe Co.	1891	1.8	1.0	....	x	.... [d]	....	No longer operating
P. Lorillard Co.	1891	2.0	3.0	....	....	....	x	Still in business
Westinghouse Electric & Mfg. Co.	1891	4.0	6.0	....	....	....	x	Still in business
Barney & Smith Car Co.	1892	2.5	1.0	1.0	x	....	....	No longer operating
Henry R. Worthington Co.	1892	2.0	5.5	....	....	x	....	Part of Worthington Corp.

[a] No organized effort to market preferred.
[b] Also issued bonds, which were marketed by investment bankers.
[c] As of 1891 after reorganization completed.
[d] Participated in the distribution in an assisting capacity.
[e] Sum of first and second preferreds.
Sources: Brokers' circulars, *Commercial & Financial Chronicle*, *Moody's Industrials*.

time.) Most of the preferreds paid 7 or 8 per cent dividends, usually on a cumulative basis. (Frequently the common stock was expected to earn 12 per cent on par after provision for preferred dividends.) A number of the preferred issues carried no voting rights, a fact that is hardly surprising when one remembers that the "owners" of these companies, in liquidating a part of their investment, usually had no intention of relinquishing control. The mode of distribution of the securities varied, usually with the manner in which a new issue came into being. The incorporation of a "trust" called for one method, a merger another, and a recapitalization still another. A few words about each.

INCORPORATION OF "TRUSTS." The conversion of several of the "trusts" into corporations reveals something about how industrial enterprises in those years abandoned their simple, and on the whole unsophisticated, mode of financing and adopted instead some of the more refined and more complicated methods already known to railroading. The increase in financial sophistication did not occur in every case, however. Two of the "trusts" (linseed oil and whiskey) converted to operating companies and simply exchanged their certificates for common shares on a one-for-one basis. It is perhaps significant that these two "trusts" had their headquarters in Chicago. The other "trusts" had New York headquarters, and all eventually became holding companies. One of the New York "trusts" (lead) handled its own conversion of certificates into shares, but two of the others (cotton oil and sugar) had their securities converted by a New York bank that had been rendering similar services to a number of prominent railroads – the Central Trust Company [21] (now a part of the Hanover Bank).

The latter two New York "trusts" (cotton oil and sugar) went so far as to take the advice of investment bankers on how the conver-

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as many new industrial preferreds as new railroad preferreds and with about the same range in size.

[21] Note the varying uses of the word *trust*. The successive derivations are as follows. If a man trusted another, he placed his money in a *trust fund* in the other man's care. When the other man established a company to handle a number of trust funds, he called it a *trust company*. The Central Trust Company was one of these. When the owners of a group of industrial enterprises surrendered their securities to a committee of so-called trustees, they called the resulting combination a "trust" (we have put the word in quotation marks to indicate our wish to use the term in this narrow and specific sense). Laws set up to deal with large industrial combinations, of which the "trusts" were the earliest examples, were called *antitrust laws*. There is still another use of the word *trust* to mean any large industrial combination, but this use is careless and inappropriate.

sion should be accomplished.[22] The certificates of both "trusts" had become widely distributed and were owned by some of the clients of these bankers. In both cases representatives of the bankers went on the board of directors, a practice that was already usual among railroads and one that was later to fall under attack as it became widely adopted by industrial firms.

On the advice of the bankers, the "trusts" divided their stock capitalization into two categories. The first, intended to be backed by the year-in-year-out earning capacity of the company and secured by fixed assets, was represented by preferred stock. The second, standing for uncertainty and risk as well as for anticipated growth, was represented by common shares. The combined market value of preferred and common shares was expected to exceed the value of the certificates they replaced. This suddenly enhanced value seemed, to the uninitiated, like financial legerdemain, but the increase is easily explained. So long as the "trust" certificates had represented risk value as well as investment value, they had held little appeal for the conservative moneyed man. But once the two aspects had been separated, the worth to each — to the conservative investor and to the rash speculator — was increased.

The sugar "trust" conversion illustrates how this appreciation in value occurred. The new corporation had a capital structure that was to become usual in the later mergers: half preferred and half common. Two $100 par "trust" certificates, when deposited, were replaced by a $100 par preferred stock and a $100 par common. The announcement of this rate of exchange (several months in advance of the actual transfer) had a pronounced effect on the market price, although other factors also influenced the situation. In three months the price of the "trust" certificate rose from 50 to the 70's. When the conversion finally occurred, the market put a value of 86 on the preferred and 57 on the common. In other words, two certificates worth approximately $100 had appreciated in market value to $143 in about three months.

The investment bankers advised one more bit of financial sophistication. On the grounds that the "trusts," like many industrials, had been operating on too thin a margin of working capital,[23] they

[22] The cotton oil "trust" brought in the prominent railroad banking house of Winslow, Lanier & Company; the sugar "trust" sought assistance from Kidder, Peabody & Company.

[23] The inadequacy of working capital to meet seasonal needs was so great in the cotton oil "trust" that it had been relying on large short-term loans and had refrained from paying dividends even when making a profit. The new corporation met this deficiency by marketing $4 million in debenture bonds to

recommended the issue of bonds to fund short-term debts — again a feature common in railroad finance at that time but almost unknown to industrials. Partly because industrialists had an almost instinctive dislike for mortgage indebtedness, the issuance of bonds did not become widely practiced. When it occurred, the issues were never large and were usually debentures rather than mortgage instruments. In general, bonds were not to play a really significant part in the rise of the industrial securities market.

MERGERS. A second source of marketable industrial securities early in the 1890's was new mergers. A few years earlier, many of these mergers would have taken the form of "trusts"; after 1889, however, they incorporated, usually in New Jersey. The initiative for merger generally came from the industrialists themselves, but the type of arrangements varied from situation to situation.

The mergers of the early 1890's can be divided into two separate groups, the larger and the smaller. The smaller followed a distinctly recognizable pattern. Not so the others. The problems involved in putting together a huge industrial combine were too varied to follow one pattern.

Each of the six *very large* mergers listed in the accompanying table came into being by a different route. American Tobacco was the work of industrialists who placed their own advertisements for the sale of their preferred and who relied on banks only to receive subscription signatures. National Starch was the work of a risk-taking promoter who previously had been operating outside the starch industry and who allied himself with a brokerage house for the purpose of distributing the new company's preferred shares. National Cordage was recapitalized in 1890 with the aid of investment bankers but went on to a series of mergers promoted by the industrialists themselves with some help from commercial bankers. The General Electric merger was a straight exchange of securities without any organized marketing effort. United States Rubber was put together by an outside intermediary paid on a commission basis; the preferred distribution was handled by a group of investment bankers and brokers. United States Leather was the work of industrialists who relied on investment bankers only to underwrite a bond issue for working capital.

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raise permanent working capital. The sugar corporation authorized, but did not issue, $10 million in mortgage bonds. Another example is the $2 million bond issue marketed by J. P. Morgan & Company in 1896 for the Studebaker wagon enterprise (later the Studebaker Corporation). Most industrial bond issues in that period ranged from $2 to $4 million and were therefore substantially smaller than the issues of preferred stocks.

In contrast, the smaller mergers of the early 1890's followed a fairly standard course: almost invariably, when they issued preferred stock to cover assured earnings and common to cover risk, as the "trusts" were doing, they arranged on behalf of the stockholders to have some or all the preferred shares marketed as a block through New York brokers. These brokers represented not the company but the stockholders. Technically the brokers did nothing for the stockholding group that they would not have done for each as an individual. They did not underwrite the distribution; they merely did their best to sell what they could without any guarantee. Their profits came from their brokerage commissions.[24] If the industrialists also wished to liquidate a part of their *common* stock holdings, as occasionally happened, they contributed their shares to a "pool" and engaged a manager, frequently the market manipulator, James R. Keene. Thus, the investment grade preferreds found their way into the hands of conservative investors through brokers, while the speculative common, through the use of pools, followed a natural course into the rough-and-tumble market.

Prominent among the brokerage houses that helped to distribute new issues of industrial preferreds in the early nineties were A. M. Kidder & Company, Poor & Greenough, Blake Brothers, S. V. White & Company,[25] Richardson, Hill & Company, and John H. Davis & Company. These were the firms that were in on the ground floor of a promising business – the distribution of newly issued industrial securities. Yet not one of them figured importantly as the industrial securities-issue business expanded, and only one of the six, A. M. Kidder, has come down to the present as an important firm. Possibly the principal reason why these brokerage houses did not figure prominently in later new issues is that they were equipped to handle only small blocks of securities.[26] Few of the companies issuing se-

[24] As a matter of passing interest, the brokers frequently supported their efforts to sell industrial preferreds by the statement that the selling industrialists had agreed to retain their common stock ownership and their interest as managers for a specific period of time. In later mergers, the industrialists often sold their entire interest in their companies, and the public was assured that these men had agreed not to re-enter business in competition with the merger for a specified number of years.

[25] Possibly one of the first lectures on industrial securities delivered at an American university was given by F. W. Hopkins, a partner in S. V. White & Company, at Yale in November, 1890. See *Commercial and Financial Chronicle* (8 Nov. 1890), p. 636.

[26] The way the brokerage houses sought to get national distribution of their securities was to place subscription lists at scattered banks and trust companies. A list of banks participating in two or more industrial preferred stock distributions in the years 1890–1893 indicates the geographical spread: New York

curities in this period fell in the *very large* category, but in the 1898–1902 period a substantial number fell in that range.

Recapitalizations. A third route by which industrial securities found their way into the market was through recapitalizations. In their simpler form, recapitalizations occurred when owners of partnerships incorporated their ventures and took advantage of the developing market for industrials to liquidate part of their investment. The most publicized instance in this period was the H. B. Claflin recapitalization. In 1890, John Claflin, son of the founder, decided to convert his family's wholesaling enterprise into a corporation to facilitate the settlement of his father's estate. Two classes of preferreds were issued, and parts of each were sold to executives, employees,[27] distributors, and the general public. The sale was handled by the company itself with the assistance of a brokerage firm and a commercial bank. Many of the purchasers were Claflin distributors, a natural group to bring in as stockholders; indeed, a number of companies in those days, on the sale of stock to outsiders, looked first to their commercial distributors as potential buyers.[28]

The sale of Claflin stock went swimmingly. From across the country came a flood of inquiries indicating that many other industrialists were intrigued by John Claflin's success in liquidating a large part of his holdings.[29] Apparently there were many who were eager to know how to do the same. Something out of the ordinary had appeared in the business world and alert industrialists were quick to sense its significance.

In their more complicated forms, the recapitalizations of the early 1890's were, in effect, a variety of merger. Many industrial companies during the previous decade had tried to avoid the legal problems inherent in the purchase of competitors by leasing their competitors' plants. With the passage of the New Jersey holding company act in 1889, these companies effected recapitalizations and

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Guaranty & Indemnity Company (New York), Farmers' Loan & Trust Company (New York), Franklin Trust Company (Brooklyn), Old Colony Trust Company (Boston), First National Bank (Chicago), and First National Bank (St. Louis). The most active bank in this field was the New York Guaranty & Indemnity Company (soon to become the Guaranty Trust Company).

[27] Since this article concerns only the manner in which industrial securities passed from inside ownership to outside or public hands, it does not treat specifically with the growing inclination of industrial companies, even some of the most closely held, to admit their employees to stock ownership.

[28] Other examples: American Tobacco Company, Swift & Company, United States Leather Company, National Cordage Company, and United States Rubber Company.

[29] *Bankers Magazine* (Aug., 1890), p. 95.

brought their leased concerns into a single enterprise. Many of these recapitalizations were commonly referred to as mergers, and in a legal sense that is sometimes what they were. But from an operational standpoint they were regularizations of what was already being done. From a financial standpoint they should be kept distinct, since they attracted the attention of investment bankers in a way that industrial mergers of that time were generally unable to do.

It was very important to win the backing of investment bankers, for they were the men who had come to occupy, through their work with government bonds and railroad securities, a central position in the market for new issues. But they were as hard to woo as Spanish senoritas. We can only suppose, in the absence of specific evidence, that industrialists had been making repeated attempts to attract the assistance of the investment banking community. But for another half-decade they were to meet with coolness. In general, the only occasions when investment bankers could be induced to handle industrial issues was (a) when called in on the conversion of trusts to corporations, (b) when a well-established industrial company wished to float a bond issue for working capital purposes, or (c) when a successful company wished to recapitalize in order to buy out its satellite plants.

By comparison with outright mergers, the recapitalizations were conservatively financed. As previously pointed out, merger common stocks were usually backed only by earning power; in recapitalizations the common stock usually had a backing in physical assets as well as in earning power. Furthermore, the earning power of a recapitalized company was fairly predictable since the company had already been operating for some time as an integrated whole, whereas the earning power of a merger was conjectural since no one could predict how well the several units would function in combination with each other.

When an investment banking house agreed to handle a recapitalization, it acted for the issuing company and not for the stockholders. It was a part of the investment banking tradition to work for the enterprise, just as it was part of a broker's tradition to work for the individual. If an investment banker agreed to help an industrial company to market its preferred, he usually shared the distribution with some other investment banking house. Only rarely did he form a syndicate to underwrite the sale.

The leading investment bankers in the recapitalization of industrials were August Belmont & Company, Lee, Higginson & Company, Kidder, Peabody & Company, and Baring, Magoun & Com-

pany. It is no accident that two of these houses (Lee, Higginson and Kidder, Peabody) were located in Boston, the early home of industrial securities, and a third (Baring, Magoun) was closely affiliated with Boston, having been Kidder, Peabody's New York branch. Boston investors were accustomed to putting their money into industrials and constituted a logical market for new industrial securities.

By all measures the most prominent of the four were the Belmonts, father and son. As American representatives of the influential House of Rothschild they were able to bring a vast reputation to their handling of industrial issues. Theirs was the only house in that early period that ventured to underwrite the sale of industrial preferreds. Their first underwriting (in association with Vermilye & Company[30]) was the 1890 issue of National Cordage preferred. This underwriting was part of a recapitalization program intended to permit National Cordage to absorb its leased properties. The recapitalization was followed by a hectic series of mergers in which the Belmonts took no part. The Belmont house also underwrote the preferred issue in the Westinghouse recapitalization of 1891.

The partners of Lee, Higginson had made fortunes in a copper mining venture (Calumet & Hecla) and, rather fortuitously, had formed a close connection with another promising venture, the Thomson-Houston enterprise of Lynn, Massachusetts.[31] Thomson-Houston was one of the companies in the General Electric merger of 1892, and Lee, Higginson consequently was one of the houses prominently associated with that company in its later financing. Lee, Higginson also participated with August Belmont in the Westinghouse issue of 1891.

Kidder, Peabody was the firm advising the sugar "trust" on its conversion to a corporation. In another instance the firm undertook to sell a preferred issue for Procter & Gamble, when the family owners of that partnership arranged a Claflin-like recapitalization to get some of their money out of the business. Kidder, Peabody also joined with Baring, Magoun when that house handled the sale of preferred stock for P. Lorillard & Company to enable the tobacco company to buy certain leased properties it had been operating.

[30] By a series of transmutations this company has become today's Dillon, Read & Company.

[31] One of the earliest industrial preferreds issued by a manufacturing company in this country was put out by Thomson-Houston in 1889 and privately distributed by Lee, Higginson. This issue was exchanged on a share-for-share basis with the new preferred issue put out by General Electric in 1892 (see Table 1).

It is important to note that investment bankers played only a minor part in the mergers of this early period. August Belmont participated in the 1890 recapitalization of National Cordage but not thereafter. Baring, Magoun handled a bond issue for United States Leather.[32] Lee, Higginson and J. P. Morgan had previously done private banking with the companies that went into General Electric, but, as already pointed out, the General Electric merger itself was a straight exchange of shares with no organized attempt at public distribution. Lee, Higginson also participated in the United States Rubber distribution. But the other *large* mergers, including those that issued only common stock, came into being without assistance from investment bankers.

The bankers no doubt argued that mergers were still an unproved organizational device and that merger stocks had still not undergone a market test. In the case of National Cordage their judgment turned out to be all too right. The Cordage executives, intoxicated by their early success, proceeded to build a larger and larger enterprise on the basis of exchanged securities until they had achieved the most talked-about industrial combination of its day. For a time their expansion was hampered only by the unwillingness of any banking house or brokerage firm to assist them in selling securities to the public. The whole structure crashed in bankruptcy, however, when a drop in the stock market in May, 1893, caused the promoters' loans to be called. The National Cordage bankruptcy threw discredit on industrial securities in general and came to be regarded as having triggered the panic of 1893. For the next four years there was to be a practical curfew on new industrial issues.[33]

Effects of the Depression: 1893–1897

Despite the virtual disappearance of a market for new issues, a number of industrial securities came on the trading market for the first time during the years 1893–1897. The latent pressure to liquidate sunk investments was too powerful to be restrained even by low prices. Most of the new securities coming on the market were

[32] The United States Leather merger, largest of its day, was the work of a group of manufacturers who stated that they wished to prepare for their retirement by bringing their properties together under the management of younger men. There was at first very little effort to market the stock to the public.

[33] Several mergers occurred during the depression but most of them were industrialist-promoted and made no use of financial middlemen. A surprising number had no connection with New York or New Yorkers. The securities of only one, the Consolidated Ice merger of 1895, measured up to investment quality.

the holdings of people who had learned that they could get cash by offering their stocks in the "outside" market (i.e., the curb outside the New York Stock Exchange). It is impossible to measure the total volume of transactions of this sort, since no records of the number of "outside" sales were kept. But the number of issues traded on this basis is in itself an indication of what was occurring. In 1890 less than 10 industrial companies, exclusive of mining ventures, had their prices quoted in the financial journals. By the crash of 1893 the number had grown to more than 30. In the next four years of depression another 170 names were added to the list.

This steady spread of activity in industrial shares during the years when almost no mergers were taking place gives us a glimpse of how the industrial securities market might have developed had there been no tendency toward merger. By the very nature of family inheritance, the ownership of American industry was gradually becoming dispersed. With this as the only force at work, a pattern of ownership somewhat like that in the cotton textile industry of New England might eventually have come to prevail: ownership might have spread, but to a limited degree; shares might have become available to outsiders, but to a restricted extent. It was the merger movement that accelerated the process and intensified it — to a smaller extent in the earlier period, 1890–1893, to a major degree in the later period, 1898–1902. As a result of the merger movement, far more people parted with their ownership in family businesses than would otherwise have done so; and doubtless far more men of substance (nonindustrialists with investable capital) put their funds into industry than would otherwise have chosen that type of investment.

We need to know more about why individual stockholders saw an advantage in surrendering their ownership in a single enterprise in favor of participation in a combined venture. As suggested above, one of the strong motivations apparently was an opportunity to liquidate part of their investment, coupled with the opportunity to remain part owners. At least this was a theme that was played on when stockholders were asked to join in a merger. The argument may have been used that mergers brought an easing of competition and an opportunity for enhanced earnings in the *future*. But the trump card was immediate liquidity at a price the owners probably never imagined their stock to be worth.

It is conceivable that a reflective observer of the industrial securities market during the 1893–1897 depression might have predicted that, as the confidence of investors returned, there would inevitably

occur a renewal of corporate mergers. Certainly the factors that had created the "trusts" of the eighties and the mergers of the early nineties were still operative and in some cases intensified. Moreover, two developments were making the pathway to merger less rocky than before: (a) the legal validity of the holding company was becoming established, and (b) the market strength of industrial securities was being demonstrated under adverse economic conditions.

In general it may be said that industrial securities weathered the depression better than the railroads, and challenged the old assumption that industrials were the more unstable of the two. True, some of the better railroad stocks, partly because they were more seasoned, turned in a stronger performance than the better industrials. But at the other extreme, it was the railroads that experienced some of the more spectacular bankruptcies. It has been estimated that approximately one third of the railroad trackage in the country entered reorganization.[34] One of the two most actively traded preferreds (Northern Pacific) was among those that had to be scaled down, and the other (Wabash) paid no dividends. Among industrials, only the smaller issues of preferred stocks went through the wringer, issues that had never really enjoyed much market acceptance.

Of special interest is the fact that the larger industrial combinations seem to have suffered least. Only two of the *very large* "trusts" did poorly — curiously enough the two with headquarters in Chicago and with capitalization of all-common stock. The three with preferred stock paid regular preferred dividends throughout the depression. Among the mergers the record of the larger ones was nearly as good, if National Cordage is excluded. American Tobacco and United States Rubber paid regular preferred dividends throughout the depression, and United States Leather at least maintained the payment on its publicly marketed bond issue. Only General Electric and National Starch did not maintain their dividend payments, General Electric because it was conserving its cash and not because it was losing money.[35] Stated another way, all the early industrial preferred issues of more than $10 million did exceptionally well. For a group of unseasoned securities, this was a remarkable

[34] See Edward C. Kirkland, *A History of American Economic Life* (New York, 1951), p. 366, and E. G. Campbell, *The Reorganization of the American Railroad System, 1893–1900* (New York, 1938), pp. 26–28.

[35] A good record was also made by the recapitalizations. All the recapitalization preferreds marketed by investment bankers maintained their dividends.

record and one that probably did not escape the notice of discerning investors.

By the end of 1897 a number of factors had provided the industrial securities market with potential strength. Business in general was surging upward and the great American confidence in a brighter future was returning. Investors were showing a willingness, even an eagerness, to put money into industrial preferreds, and the owners of industrial properties had less reason to be skeptical about selling out to a combination of competitors, for they had the advantage of knowing how the participants in earlier mergers had fared.

Industrial Securities Come of Age: 1898–1902

It is hardly surprising that the first men to sense the change in confidence of investors were the independent promoters. These men had played a relatively small part in the earlier boom in industrial securities, but they had been learning valuable lessons.

John R. Dos Passos had served as legal counsel for the sugar "trust" and had noted how market values could be enhanced by the issue of a variety of securities to replace a single all-purpose issue of certificates. The Moore brothers (W. H. and J. H.) of Chicago had been influential in the 1890 formation of the New York Biscuit Company and had learned from that venture that an all-common stock issue had less market potential than a mixture of common and preferred. Charles R. Flint, an importer of crude rubber and therefore a man well-known to the rubber industry, had served as negotiator in the United States Rubber merger and had become convinced that money was to be made in the promotion of combines.[36] Elverton R. Chapman, a partner in the venturesome brokerage firm of Moore & Schley (John G. Moore and Grant B. Schley), had gained some experience in telegraph and gas mergers but nothing in the industrial field to compare with the experience of the other men just mentioned.

We have no way of knowing whether these men saw, or were offered, opportunities to promote mergers during the depression years. Perhaps merger opportunities came their way only to be laid aside when they saw how unreceptive the market was. With market revival, however, these men were quick to act. They had much to gain and little to lose. Unlike so many of the brokers and bankers these men did not let themselves be deterred by a concern for their

[36] Flint had tried earlier to promote a merger among electrical manufacturers, but without success.

reputation for soundness and stability. Their ambition was to make quick profits from ripening opportunities.

Beginning in the fall of 1897 and running through to the summer of 1898 a number of new mergers occurred. Six of these ranked *very large* in size. Two of the six (Glucose Sugar Refining and International Paper) were the work of manufacturers with only their lawyers assisting. The other four were put together by three of the four men mentioned above. Dos Passos was responsible for the American Thread Company, the Moore brothers for National Biscuit, and Chapman for American Malting and for Standard Distilling (a combine of the distilleries not included in the old whiskey "trust"). Flint is absent from the list, but judging from the flood of his promotions early in 1899, he must have been already at work. Not only were these men among the first to join the great end-of-the-century merger caravan but they were to occupy leading positions throughout the next five years.

The promotion of *very large* mergers late in 1897 and early in 1898 followed a distinguishable pattern. This seems the more remarkable when it is recalled that earlier the *very large* mergers showed no pattern whatsoever.[37] Some fundamental changes had occurred in business since 1893, and all the promoters seem to have adjusted to these changes in approximately the same way.

One of the changes, for instance, was the increasing willingness of many stockholders to part with their equities outright when their firms joined in a merger. Another was the relative degree of confidence shown by promoters. Whereas formerly the promoter had received a commission for his services, in the later period he took a position of risk. Acting as manager of a syndicate, he brought into temporary partnership with himself a group of moneyed men among whom were usually the leading industrialists in the field of the merger and perhaps one or two brokerage houses to help in the eventual distribution of securities.

More often than formerly the firms entering a merger were already corporate in form and had many stockholders. This increased dispersion of ownership made it more difficult to get acquiescence to a merger plan. Whereas formerly one or two men spoke for an entire company, the new mergers sometimes had to get the approval of hundreds of stockholders, especially when, as in National Biscuit,

[37] The only earlier merger of a pattern similar to that of the later period was the National Starch Manufacturing Company of 1890, organized by Chester W. Chapin. Curiously enough, Chapin seems to have taken very little part in the mergers of 1898–1902.

the merger was a combination of already merged companies. If at least a majority of stockholders agreed to a merger, the plan could go through and the holdouts and potential troublemakers could be ignored, but a clean organizational plan with no minority groups was usually favored.

Still another change in underlying conditions was the increasing amount of cash required to effect a merger. In the days when stockholders could be induced to join through a simple exchange of securities, few cash expenses were involved – incorporation fees, legal expenses, travel, entertainment, and the like. By the end of 1897 those days were gone.

First, there was the need for option money. Before deciding to form a new company the promoter's syndicate had to get fixed-price options on the properties to be merged. These options sometimes expired before all the negotiations had been completed, and one of the risks of promotion was the loss of option money under such circumstances.[38]

Cash was needed for a second purpose: working capital. When a merger acquired only physical assets, it received no liquid funds and sometimes no inventory with which to begin operations. These had to be provided before the new company could get under way.

Thirdly, the component companies often had miscellaneous indebtedness which the promoter wished to clean up. With cash to pay off these debts the merger could start with an unencumbered balance sheet.

Fourthly, the promoters generally agreed to pay for properties partly in cash instead of wholly in securities. A part payment in cash (when coupled with the fact that a selling company usually retained its own liquid capital) made a merger seem very attractive to the sellers. The arrangement in effect transferred to the promoter's syndicate the risk of putting the securities on the market.

Occasionally the cash for working capital purposes was raised by the sale of bonds to the public, but almost invariably the rest of the cash and usually the working capital as well was obtained by the sale of equity securities. To expedite these sales a new gimmick was used. The public was admitted to the same preferential treatment formerly tendered only to the stockholders: that is to say, an investor who subscribed to a share of preferred stock also received a

[38] Usually industrialists were sufficiently eager to sell to be willing to extend the options, but not the hardheaded Andrew Carnegie, who, at a slightly later date, was to make the Moore brothers forfeit a whopping million-dollar option when they were unsuccessful in arranging a Carnegie-centered merger of steel companies.

certain (usually equal) amount of common stock, the first representing investment value and the second representing risk capital. The combined package still sold at par, but whereas formerly the preferred had been thought to be worth $100 and had been accompanied by only a "right" to buy common stock, by 1897 the preferred was looked upon as worth something *less* than par and the speculative value of the common was thought to be more than enough to make up the differential. Thus, an investor who paid $100 for a preferred-common package did so in the belief that he would be able to turn around and market his shares separately for a combined value of perhaps $110 or $115.[39]

A promoter had to be careful not to get himself in a position of needing more cash than the market would provide. If he thought the market was not going to absorb enough securities, he could, of course, back out of the deal, but only at the cost of his option money and his prestige as a promoter. If, on the other hand, he ventured ahead only to discover that he could not unload, he and his syndicate found themselves faced with a shelf full of depreciated securities and an unhappy group of industrialists whose securities had turned out to be worth less than they had been led to expect.

The secret was to limit the amount of cash needed. To accomplish this the promoter tried to get the merging industrialists to accept securities for as much of the purchase price as possible. He might use the strategy of saying to these industrialists that it was immaterial to him whether they asked for cash or securities. Such apparent indifference would indicate that the promoter felt confident he could raise the cash, if necessary, by selling the securities of the new company to the public. But he could not take this position of indifference unless the industrialists were likely to choose securities; otherwise the merger would require too much cash and the promoter, to raise the cash, would run the risk of glutting the market with stock of the new company.

Some writers have assumed that, in setting the amount of a merger's capitalization, a promoter regarded the sky as the limit. But in fact there was a certain ceiling above which he could not go. Many of the industrialists had had long experience in their field and were in a position to make a fairly accurate appraisal of the earning power of the new combine and hence the long-range value of the combine's securities. True, industrialists sometimes overestimated

[39] By 1902 a common expectation was that the preferred would sell for $85 and the common for $35. See our article on the International Mercantile Marine merger of 1902 in the December, 1954, *Business History Review*.

the earning power of the combine to which they were selling out, but they at least had some concrete basis for judgment. If, in their opinion, the promoter was issuing more securities than the earnings of the combine could carry, they simply refused to accept payment in stock and asked for cash instead — or withdrew from the merger. Since the promoter could not afford to run the chance that either of these mishaps would eventuate, he had to make certain that his capitalizations revealed some degree of caution — a caution which, unfortunately, somewhat dissolved as the public became increasingly willing to buy any securities the industrialists were unwilling to accept.

By mid-1898 it was clear that something big was happening, for the promoter-backed mergers had found a favorable market and the investing public had showed itself ready to put its money into industrial securities. It took only the formation of the Federal Steel Company with a syndicate organized by J. P. Morgan & Company to confirm the trend. The Morgan firm was the largest of the railroad banks, and by putting support behind an industrial issue, it gave to industrial securities an endorsement that was certain to count heavily with the investing public.

In comparison with the financial methods of the independent promoters, Morgan's arrangements for the Federal Steel merger were traditional and conservative. The Morgan firm declined, for instance, to buy assets and stuck instead to the old-fashioned method of buying from the stockholders a controlling interest in the merging companies. Morgan also declined to bait stockholders with an offer of part cash (although in later mergers he had to fall in with general practice in this regard). The Morgan methods required far less cash than did the methods of the promoters. But some cash had to be raised to satisfy the Morgan demand for sound financing. Morgan's plan for Federal Steel was to increase the working capital beyond what the participating companies had been operating with and to provide a sum of money for new plant and equipment. These funds were to be obtained by selling preferred stock — just preferred, with no bonus of common. The stock was to be offered first to the existing shareholders and then to the public, the Morgan syndicate being responsible for selling any stock that the shareholders did not take. This was true underwriting in the classical sense of the term, the sense in which the term was used in railroad financing.[40] It did less to spread ownership of industry than did the methods of the promot-

[40] See Fritz Redlich, *The Molding of American Banking: Men and Ideas* (New York, 1951), Vol. 2, Pt. II, p. 371.

ers. But it accomplished one goal that the promoters had done little to achieve. When the promoters had brought in new cash, they had used it primarily to replace cash withdrawn from industry. The Morgan arrangement was an early example of the use of preferred stock for a new purpose: the attracting of investment capital to strengthen and expand industry.

With the Federal Steel merger the accumulation of forces toward integration of companies, diversification of investments, liquidation of sunk capital, arrangement for management succession, and resolution of competitive excesses burst forth into the great merger movement of the end of the century. In the next four years the market was to be flooded with industrial securities and — what was of equal importance — was to absorb them.[41] Most of the new industrial issues coming on the market were the product of mergers. Most of the offerings led with preferred and followed with a bonus of common. Most of the arrangements conformed to one or the other of two patterns, the one worked out by the innovating promoters, the other practiced by established investment bankers like J. P. Morgan and modeled on railroad experience.

The rest of the story is fairly well-known. In the years from 1898 to 1902 there were added to the list of traded industrials some of the stellar names of modern American business, companies that were to take leading positions in their industries: United States Steel, International Harvester, American Can, Pittsburgh Coal, American Car & Foundry, American Smelting & Refining, International Silver, United Fruit, just to name a few of the best-known.[42] Whereas only a decade earlier an industrial company with over $10 million capitalization was a rarity, there was produced by merger, in the span of a few years at the turn of the century, nearly a hundred companies of that size. Almost all the mergers of that period fell in the industrial classification. Almost all followed the familiar pattern of issuing preferred to cover basic value with a bonus of an

[41] Not until the spring of 1903 did the accumulation of securities glut the market, thus contributing to the depression that was then developing and bringing to an end the turn-of-the-century merger period.

According to Shaw Livermore, and in contrast to the general view on this subject, a high proportion of the mergers in the 1889–1905 period were financial successes. See Shaw Livermore, "The Success of Industrial Mergers," *The Quarterly Journal of Economics* (Nov., 1935), p. 68.

[42] On a sample day in 1903, trading was reported in 136 industrial commons, of which a third were the issue of companies still existent in 1955 with little change in name. On the same day trading was reported in 83 preferreds, of which a quarter were the issues of companies still existent and still financed by preferred stock.

equal amount of common to represent risk earnings and the promise of growth.[43]

It is a curious commentary that so much of this radical change in corporate structure was accomplished by the industrialists themselves with the assistance of a handful of maverick financial men, the independent promoters. Four promoters (the four mentioned earlier: Flint, Dos Passos, the Moore brothers, and Moore & Schley) handled the negotiations for nearly a third [44] of the *very large* mergers of 1898–1902. One of these four, the partnership of Moore & Schley, was so active that it showed promise of achieving first magnitude in the banking field; its prominence in the mergers of 1898–1902 was exceeded only by Morgan's. But although it was for many years the largest brokerage firm on Wall Street, the crash of 1907 was to bring it close to ruin. Only the intercession of Morgan saved it from bankruptcy. Thereafter it went into eclipse and although it still survives it has never regained its earlier position. So great has been the interest of historians in the work of J. P. Morgan and so limited the information about the work of these independent promoters that their role in the turn-of-the-century merger movement has never been given the attention it deserves.

Another third of the *very large* promotions in this period was the work of a number of men, each with only one or two promotions to his record. A few of these men have gained historical prominence – John W. Gates of American Steel & Wire, F. Augustus Heinze of United Copper, and Thomas A. McIntyre of the Standard Milling Company. But many of the others have disappeared into oblivion as have some of their companies.

A quarter of these *very large* mergers was the work of investment bankers, principally those with experience in the issue of railroad securities. Eventually nearly all the railroad houses participated in the turn-of-the-century mergers, but only J. P. Morgan with any zest. The Morgan house managed some of the largest industrial syndicates of the period and in the popular mind did much to link

[43] These general statements are based on a page-by-page examination of the *Commercial & Financial Chronicle* and the *Boston News Bureau* for those years, but summary figures do not include projected mergers that came to nothing. Another useful source for this period is the *United States Investor*.

[44] This fraction is based on the *number* of mergers. If *capitalizations* are taken as the base and Morgan's mergers excluded, these four promoters account for about two-fifths of the business, or more than twice the amount accounted for by all the investment bankers apart from Morgan. The Morgan mergers were so extraordinarily large that, when added to the group, their capitalizations account for about half the total.

investment banking with the merger movement.[45] But obscured behind the dazzling performance of the Morgans is the fact that relatively few of the turn-of-the-century industrial merger promotions were headed by the old-line railroad houses.

Summary

The years 1887–1902 produced a solution to one of the troublesome problems created by the industrial revolution, the problem of capital inflexibility in the industrial segment of our economy. In the great age of commerce that had preceded industrialization, capital had been liquid and therefore fairly free-flowing. But with industrialization, capital had been sunk more and more in fixed investment, and new methods had to be developed before easy transfers of ownership could again become possible.

By seeking incorporation the proprietors of industrial enterprises had acquired, through the issuance of common stocks, a potentially easy means of transfer. But even with this potential at hand a fluidity of transfer awaited the development of market acceptance. Until the late 1880's industrial companies remained for the most part too small to be widely known and their securities too risky to be of interest to investors.

In the 1890's two developments helped to resolve these difficulties. The merger movement produced enterprises of such size and such dominant position in their industries that their existence became a matter of household knowledge. Concurrently the all-common-stock form of capitalization gave way to capitalizations of part common, part preferred with the effect of converting some of the so-called risky industrial securities into more attractive instruments of investment. The issuance of a number of new industrial preferreds during the early 1890's laid a groundwork for market confidence. But it was the performance of these preferreds during the depres-

[45] It should be pointed out that the largest merger of all, United States Steel, was initiated not because of competitive stress but because an individual, Andrew Carnegie, wanted to liquidate his sunk investment in steel properties. It is our belief that J. P. Morgan became interested in the Carnegie properties in two stages: (a) when he learned, at the famous Simmons dinner, that the profit outlook for the steel industry made a public sale of steel securities look promising and (b) when he learned that Carnegie would accept bonds in full payment, thereby obviating the need for a public issue to raise money for the purchase of Carnegie's properties. However, such a huge bond issue posed a problem, for the underlying structure had to be large and impressive to support so much debt. It may have been the need for a balanced financial structure as much as anything that led Morgan to approve the huge capitalization that United States Steel came to have.

sion of 1893–1897 that convinced the investing public of the soundness of industrial preferreds.

It is possible to distinguish four stages through which industrial securities passed on their way to general market acceptance. In the first stage, which existed before the late 1880's, these securities had a very narrow market. They rarely were listed on the Exchange. Sometimes they were traded on the "outside" curb, but more often they had only regional acceptance and exchanged hands only in direct person-to-person sales. Occasionally blocks of stock were offered on an auction basis. If a firm was sold outright, the price-earnings ratio tended to be low, frequently no more than three times average net income. It was under these market circumstances that the "trust" certificates began to be traded.

The success of the "trust" certificates introduced a second stage, which extended from 1890 to 1893. In this period industrial securities began to be listed on the Stock Exchange and to be traded by leading brokerage houses. A relatively new type of security, industrial preferreds, was issued and marketing groups were formed, usually under the auspices of brokerage houses, to assist stockholders who wished to liquidate part of their investment. Price-earnings ratios began to move up, and brokerage firms began to assure their clients that industrial commons ought to be worth approximately eight times average net income. In this stage, as in the earlier one, most of the trade remained at the stockholder level. Only rarely did companies issue new securities and sell them directly to the public as a means of raising funds. This development became general only in the third period.

When the merger promotions began late in 1897, the promoters were able to count on a market that was already conditioned by the sale of securities at the stockholder level. It was therefore not a difficult leap for the promoters to begin marketing securities on behalf of the companies themselves. In this third stage the funds raised by public sale were used to pay off former stockholders or to replace working capital and not to extend the company's operations. Furthermore these sales were not underwritten; the promoters simply made sure that they could sell the necessary blocks of securities before committing themselves to the merger. Viewed in terms of *number* of issues, this stage dominated the period 1897–1902. It would also have dominated the period in terms of *capital* issued had it not been for the work of J. P. Morgan & Company. It was the Morgan firm which introduced stage number four.

Since the third stage had inherent weaknesses, it did not survive

the end of the merger movement. By the very nature of their operation the merger promoters did not provide the funds necessary for an expanding industry and they could not, because of their limited capital resources, guarantee to the issuing companies the funds which a new issue of securities was intended to raise. The financial men who had been accustomed to raising new funds on a guaranteed basis were the investment bankers, and it was to them that industry eventually turned.

That the investment bankers were slow to enter the business of underwriting industrial securities is not surprising. With a market that was still relatively untested, bankers had to accept a high level of risk to underwrite industrial securities. Furthermore, most of the old railroad houses had been accustomed to underwriting bonds and had conditioned their customers to think of bonds when they thought of investment. In the early 1890's some of these houses had in fact underwritten industrial bonds. But it was preferred stock that was to gain popular acceptance among industrial securities, and the underwriting of preferred issues was something the investment bankers came to slowly. J. P. Morgan & Company led the field in 1898 with the others following only in a cautious way. Not, indeed, until after 1902 did industrial securities settle into the fourth stage of securities marketing – the stage when underwriting of issues came into general practice.

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Bank Enterprisers in a Western Town, 1815-1822

When attention is shifted from individual entrepreneur to the socio-economic group of which he is a part, new historical perspectives are opened to view. This study of a group of bankers in frontier Cincinnati considerably sharpens the historical concept of the "Western Banker" and provides insight into the nature of the banking function in a developing economy. The data employed yield significant conclusions about the nature of the bankers' backgrounds and about the importance both of those backgrounds and of the frontier environment in shaping the bankers' function and role.

In an article on "Problems and Challenges in Business History Research with Special Reference to Entrepreneurial History," published in the *Bulletin of the Business Historical Society* (September, 1950), Thomas C. Cochran challenged historians with the assertion that "we cannot place business men as a group in society. . . ." While he raised a large number of questions, he suggested also a number of new approaches, and observed "that shifting the focus from the firm to a large social group of men performing similar roles leads to new questions and methods."

The following study describes a group of Cincinnati bankers in the eight years following the War of 1812, a period embracing the start of the great population movement into the Old Northwest. It is neither an attempt to assess the historical importance of their work nor to locate their position within a narrative of more general historical events, but rather to identify and assess such group characteristics as appear to have been present and, insofar as possible, to relate those characteristics to the environment in which they existed.

Fortunately, the names of many of the earliest western bankers of that period may be discovered in several communities. They were often published in local newspapers, and the establishment of a press usually preceded the establishment of a bank. Information about the men upon which this study is based was obtained from

cemetery records, local histories, church archives, newspapers, court records, and other sources.[1]

Preliminary study of a considerable number of bankers in eight towns of Ohio and Kentucky suggests that in each community they represented approximately the same backgrounds, activities, and interests, and performed equivalent services. In the newer and smaller towns they were somewhat different as groups from those in older and larger centers, but the same general processes of de-

[1] The most common general source of information is the local newspaper obituary. To facilitate finding it without giving each citation separately the date of death (where known) is given parenthetically following the name. The bankers on whom the study is based are as follows: John Andrews; John Armstrong (6 Sept. 1839); William Barr (18 March 1837); Martin Baum (14 Dec. 1831); Jacob Baymiller (July, 1824); Ethan Allen Brown (24 Feb. 1852); Isaac G. Burnet (11 March 1856); Jacob Burnet (10 May 1853); Thomas Davis Carneal (3 Nov. 1860); Francis Carr (23 July 1833); William Corry (16 Dec. 1833); John Cranmer (1832); Samuel W. Davies (21 Dec. 1843); John Davis; Daniel Drake (6 Nov. 1852); William Eaton; David Kirkpatrick Este (1 April 1876); James Ferguson (21 Oct. 1853); Abraham Ferris (1861); James Findlay (28 Dec. 1835); Daniel Gano (17 Aug. 1873); John Stites Gano (1 Jan. 1822); John Gibson, Jr. (26 July 1849); Joshua Gibson (19 April 1823); Hugh Glenn (28 May 1833); James Glenn; Thomas Graham (29 March 1838); Philip Grandin (29 Jan. 1858); David Griffin (6 Nov. 1854); William Harlow; William Henry Harrison (4 April 1841); David Holloway; Lewis Howell (Aug. 1858 ?); Jesse Hunt (24 Aug. 1835); William Irwin (1824); Levi James (27 July 1849); Cave Johnson; James Keys; John F. Keys; David Kilgour; Nicholas Longworth (10 Feb. 1863); Stephen McFarland (8 Nov. 1832); Andrew Mack (12 July 1854); Oliver Martin; Benjamin Mason (19 Oct. 1847); Daniel Mayo (25 Dec. 1838); Adam Moore (28 Dec. 1849); James C. Morris (25 June 1828); Samuel Newell; William Noble (23 May 1827); William Oliver (1851); Elijah Pearson (21 June 1833); Joseph Perry (1852); Samuel Perry (12 April 1855); Horatio G. Phillips (10 Nov. 1859); John Hopper Piatt (11 Feb. 1822); William Piatt (16 Aug. 1834); Job Pugh; Lot Pugh (2 April 1850); William Ramsey; Nathaniel Reeder (29 Dec. 1831); Lewis Rees; James Reynolds; James Riddle; William Ruffin (5 July 1834); Hezekiah Saunders (3 Jan. 1836); Thomas Sloo, Jr. (17 Jan. 1879); Richard Southgate; Oliver M. Spencer (30 May 1838); Thomas Stansbury; John Sterrett (23 June 1849); William Sterrett; Samuel Stitt (1847); Ethan Stone (20 April 1852); John Sutherland (9 Sept. 1834); James Taylor (7 Nov. 1848); George Paull Torrence (27 Aug. 1855); Samuel C. Vance; David Everett Wade (22 July 1842); John Sloan Wallace (28 July 1836); Calvin Washburn (9 Oct. 1835); Jacob Wheeler (10 July 1835); Jacob Williams (6 July 1840); Richard Williams; William Woodward (23 Jan. 1833); Gorham A. Worth (1856); William M. Worthington; Griffin Yeatman (4 March 1849).

Bibliographical references for seven of the men may be found appended to the sketches in the *Dictionary of American Biography*: Ethan A. Brown, Jacob Burnet, Daniel Drake, James Findlay, Hugh Glenn, William H. Harrison, and Nicholas Longworth. Sketches of David K. Este, John H. Piatt, James Taylor, and several of the others appear in *Appletons' Cyclopaedia of American Biography*. A number may be found in three standard reference works: *The Biographical Encyclopaedia of Ohio of the Nineteenth Century* (Cincinnati and Philadelphia, 1876); J. Fletcher Brennan (ed.), *A Biographical Cyclopaedia and Portrait Gallery of Distinguished Men, with an Historical Sketch of the*

velopment appear to have recurred quite regularly.[2] For the purposes of this study attention is centered on a single community in order to facilitate comparisons and to simplify the definition of the place of the bankers within the community. The community selected was one large enough to permit, in addition, some statistical generalizations.

The banking community in Cincinnati, Ohio, was one of the largest in the northwestern country during the years that followed the end of the war with Great Britain. The town had a population of about 6,500 in 1816. By 1820 it had grown to over 9,600, and by 1824 to more than 12,000. Although it was not large, even by the standards of that time, it was a commercial and industrial metropolis, the seat of the principal public land office in the Northwest, and

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State of Ohio (Cincinnati, 1879); and *The Biographical Cyclopaedia and Portrait Gallery with an Historical Sketch of the State of Ohio* (6 vols., Cincinnati, 1883–95). A larger number may be partially identified through six local histories: Henry A. Ford and Kate B. Ford, *History of Hamilton County, Ohio* (Cleveland, 1881); Ford and Ford, *History of Cincinnati, Ohio* (Cleveland, 1881); S. B. Nelson & Company, *History of Cincinnati and Hamilton County, Ohio: Their Past and Present* (Cincinnati, 1894); Charles T. Greve, *Centennial History of Cincinnati and Representative Citizens* (2 vols., Chicago, 1904); Charles F. Goss, *Cincinnati the Queen City, 1788–1912* (4 vols., Chicago, 1912); Lewis A. Leonard (ed.), *Greater Cincinnati and Its People: A History* (4 vols., New York, 1927).

There are special studies of a number of others. For example (on Martin Baum), Helmut Trepte, "Deutschtum in Ohio bis zum Jahre 1820," *Deutsch-Amerikanische Geschichtsblätter*, XXXII (1932), 279–304, and George A. Katzenberger, "Martin Baum," *Ohio Archaeological and Historical Quarterly*, XLIV (Jan., 1935), 204–19; (on Ethan A. Brown, in addition to the references in the *Dictionary of American Biography*) John S. Still, "The Life of Ethan Allen Brown Governor of Ohio" (Ms dissertation, Ohio State University, 1951); (on Isaac G. Burnet) Harry R. Stevens, "Cincinnati's Founding Fathers — Isaac G. Burnet," *Historical and Philosophical Society of Ohio Bulletin*, X (July, 1952), 231–9; (on O. M. Spencer) Virginius C. Hall, "Oliver M. Spencer, Man and Boy," *ibid.*, VIII (Oct., 1950), 233–57; (on Thomas Sloo, Jr.) John F. Snyder, "Thomas Sloo," *Illinois State Historical Society Transactions* for 1903 (Illinois State Historical Library Publication No. 8, Springfield, Ill., 1904), 201–6, and Isaac J. Cox, "Thomas Sloo, Jr., A Typical Politician of Early Illinois," *ibid.*, 1911 (I.S.H.L. Pub. No. 16, Springfield, Ill., 1913), 26–42.

[2] Bankers of the smaller towns in Ohio, Kentucky, and Indiana have been identified primarily through the scattered files of local newspapers and through city and county histories, those published between 1870 and 1905 having been most helpful. Newspaper advertisements often provide evidence of occupation, and the local histories sometimes include biographical data. Newspapers chiefly consulted were those at the Cincinnati Public Library, Historical and Philosophical Society of Ohio, Ohio State Museum, Western Reserve Historical Society, Newberry Library, Wisconsin State Historical Society, Library of Congress, and Duke Library. On county histories, see C. Stewart Peterson, *Bibliography of County Histories of the 3111 Counties in the 48 States* (2d ed., Baltimore, 1946, with supplement).

a center of financial activity that extended from Philadelphia to New Orleans and from Michilimackinac to the Rio Grande.[3]

During the eight-year period from 1815 to 1822 there were five banks in operation at one time or another in Cincinnati. They were the Miami Exporting Company (1803–1842), the Farmers and Mechanics' Bank of Cincinnati (1811–1823), the Bank of Cincinnati (1814–1822?), a branch office of discount and deposit of the second Bank of the United States (1817–1820), and a private banking partnership, John H. Piatt & Company (1817–1820).

It is possible to determine fairly well the number of men who served as officials of the five Cincinnati banks. The private firm of John H. Piatt consisted of three partners. Among the other banks the general practice was to have a board of 10 or 12 directors. The directors, as well as the presidents and cashiers were usually chosen for a term of one year. Not all of those elected served a full year, for there were occasional deaths, resignations, or removals from the community. The continuity of membership on the board varied from one bank to another, and from year to year. The presidents and cashiers were usually re-elected, and, with a variable proportion of re-elected directors, gave some stability to the government of the banks. It seems probable that there were about 124 men altogether who served as bank directors, presidents, or cashiers in Cincinnati during the eight-year period. Of the total number 88 have been identified by name.

A number of statistical considerations may first be noted, and then a general assessment made (based on biographical studies of the individuals and on a study of the entire community) of the bankers' role in the community. Perhaps the most remarkable statistical feature of the group from this standpoint is their number. The population of the city according to the census of 1820 included 1,672 free white males 26 years of age and over. All of the bank officials in the group studied were at that time 26 or over; and it would thus seem that at least 5 per cent, and perhaps as much as 7 per cent of the men in that age group had some direct responsibility in bank enterprise. The proportion is perhaps higher than might be expected in a new western city. It indicates clearly that, whatever the experience of

[3] C. C. Huntington, "A History of Banking and Currency in Ohio before the Civil War," *Ohio Archaeological and Historical Quarterly*, XXIV (July, 1915), 269–351; Maurice F. Neufeld, "Three Aspects of the Economic Life of Cincinnati from 1815 to 1840," *ibid.*, XLIV (Jan., 1935), 65–80; William T. Utter, *The Frontier State, 1803–1825* (Columbus, Ohio, 1942), 229–95; R. C. Buley, *The Old Northwest Pioneer Period, 1815–1840* (2 vols., Indianapolis, 1950), I, 565–603. The last work contains excellent bibliographical notes.

the individual bank official may have been, the community as a whole enjoyed a broadly shared experience in banking responsibilities.

Possibly the most easily measured characteristic is that of age. The birth dates of 65 members of the group are known. They range from 1754 to 1794, so that in 1821 the range in age was from 27 to 67. Both the median year of birth and the simple average of dates of birth were 1778. Perhaps of more significance was differentiation into two fairly clearly defined age groups. Forty-nine of the 65 were born in either of two periods, 16 from 1766 to 1771, and 33 from 1776 to 1788. Only a few were born during the intervening half decade. There were thus two groups, those who in 1821 were from 33 to 45, and those from 50 to 55, with the younger group about twice as numerous as the older.[4]

In the highly irregular age distribution through the city as a whole, which had an extremely large proportion of men from 17 to 35, both groups represented a fairly mature element. That emphasis is shown more strikingly and more justly, however, by comparison with other professional groups. To choose a single example, the bankers as a group were about eight years older than the members of the bar as it was constituted in 1819.[5]

Closely related to the subject of age was length of residence in the community. Eight of the bank group were not residents of the city, but lived in Dayton, Hamilton, or Chillicothe, Ohio, or nearby in Kentucky. Some others were rural residents of the county. Most of the group were immigrants, the area being as yet too new to have an adult native-born population of any appreciable size. Among 64 whose date of arrival in the West can be determined, all but one had come before the close of the War of 1812. The one exception was the cashier sent from New York to work in the branch office of the Bank of the United States. The others had arrived between 1788, the year of the first settlement in the territory northwest of the Ohio River, and the end of 1814. The median year of arrival was 1798. Half of the group, that is, had come to the community within its first decade. Here again a significant grouping may be

[4] Evidence of age is taken chiefly from the newspaper obituaries, a variety of biographical memoirs and reminiscences, the *Cincinnati Pioneer* (5 nos. in 1 vol., Cincinnati, 1873–75), and the extremely valuable manuscript card index of the Spring Grove Cemetery Association, Cincinnati, Ohio.

[5] The general data contained in the Census Report of 1820 must be supplemented by the information in two city directories, Oliver Farnsworth (comp. and ed.), *Cincinnati Directory for 1819*, and Harvey Hall (ed.), *Cincinnati Directory for 1825*.

noted. There were three main periods of immigration among those who became bankers: the earliest from 1788 to 1792, a second, after the close of the Indian wars, from 1795 to 1798, and a third, during the early years of statehood, from 1802 to 1809. It seems likely that the differences in length of residence in the West may have had some relationship to attitudes on several basic matters of financial and commercial policy. Those who had experienced the early starving times and Indian raids sometimes felt themselves to have a different interest in the community from those who came in the more tranquil years after a state government had been created and Louisiana had been annexed to the United States in 1803. During the financial troubles of 1818–24 such differences of experience and outlook seem to have had some bearing on their actions.

The subject of immigration involves a consideration of the geographical origins of the banking group. For rather a high proportion — 77 of the 88 — the place of birth may be identified. Among them 29 per cent were born in Pennsylvania, 23 per cent in New Jersey, 16 per cent in Virginia (including West Virginia), 9 per cent in Maryland, 7 per cent in Great Britain, 5 per cent in Connecticut, 4 per cent in Massachusetts, and 7 per cent in various other places. At first glance their places of birth seem plain enough in meaning, for they correspond in a general way to the places of origin of the population of the whole community. However, a comparison may be made with the nativity of the whole adult male population in 1825, and from such a comparison some interesting variations may be noted. The nativity of the whole adult male population showed: from Pennsylvania 15.7 per cent, from New Jersey 13.4 per cent, from New York 9.3 per cent, from Great Britain 16.6 per cent, from Massachusetts 7.3 per cent, from Maryland 6.8 per cent, from Connecticut 5.7 per cent, and from Virginia 4.5 per cent.[6]

[6] The city directories cited above provide the basic data. The *Directory for 1825* provides (p. 7) a tabular summary of this information, and in its alphabetical listing of 2,427 heads of families usually includes the place of origin of each individual. This information seems to refer in many instances, however, to the last place of residence prior to removal to Ohio rather than to place of birth. A large portion of it has been checked and corrected, and some additional information supplied by reference to the manuscript card index of the Spring Grove Cemetery Association (Cincinnati, Ohio), the manuscript obituary index of the Historical and Philosophical Society of Ohio, extensive biographical notes in Nova Caesarea Harmony Lodge No. 2 (Masonic) Records (John Day Caldwell Mss, H.P.S.O.), cemetery inscriptions published in the "Genealogical Department" of the H.P.S.O. *Bulletin*, the printed sources mentioned in footnote 1 above, and certain other works such as *In Memoriam*,

Thus it appears that there was a high proportion of bankers from New Jersey and Virginia, a moderately high proportion from Pennsylvania, and above average from Maryland, but bankers from Connecticut and Massachusetts were below their proportion in the total population, and from New York and Great Britain far below.

Certain features of the distribution may be readily explained. The New Jersey and Pennsylvania elements were among the earliest to settle in the community, and were exceptionally well-established. The New England element had arrived for the most part after 1815, and was not yet engaged in banking, although extensively interested in commerce. On the other hand the Virginia and Maryland element is remarkable. In one instance it suggests the commercial experience and connections of men from Baltimore; in the other, a more tenuous relationship may be proposed. A good many of the Virginians who moved to the Ohio River town engaged in small-scale storekeeping. It was from that element that some at least of the Virginia bankers emerged, and their backgrounds and associations seem to have given a special character to much of the local bank enterprise. Finally, the relative absence of New Yorkers and New Englanders requires a further explanation. Many of the immigrants from those areas were craftsmen and skilled mechanics of various sorts, ship carpenters, shoemakers, cabinet-makers, metal workers, printers and the like, rather than farmers; and it is one of the noteworthy features of the group that individual progress into banking was made more frequently from farming than from manufacturing. No single formula thus appears to explain the variations in the proportions of men from different eastern communities who were to be found as bankers in Cincinnati during this period.

The inquiry thus leads to a consideration of the nature and extent of the business experience of the members of the banking group. That experience may be grouped in four categories. A small but important number of the bankers were professional men. Among them were one minister, two physicians, and nine lawyers. A considerable number were farmers, and perhaps a majority of the bankers had done a good bit of farming at some time in their lives. By far the largest proportion were or had been merchants. Finally, a fairly large number may be described as business enterprisers. To the last category may be assigned the mechanic-manufacturers, such as the hatmakers, the nail-maker, and the notably large number of six

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1881 (Cincinnati, 1881) and Charles Cist, *Cincinnati Miscellany* (Cincinnati, 1844–46).

tanners; there, too, perhaps, should be placed the pork packers and produce shippers, the miller-merchants, and those who were investing in or managing the new factory industries, the sugar mill, the glass factory, the wool and cotton mills, and the bell, brass, and iron foundry.

Perhaps the category of business enterprisers is too broad and diverse to be of any great value; in other ways the simpler groups of farmers and merchants are not less complex and misleading categories. The farmer of that community, and particularly the farmer who became a bank director, was often also a merchant. He took his produce to the city market, or shipped it down the river in his own barge, frequently conveying it personally, sometimes with the produce of his neighbors. He bought and sold, and kept records. He took his grain to a neighboring mill, often a mill that he owned or in which he had invested both labor and capital and was a partner. He might maintain a small rural store in his own community; and he was very likely to be a land speculator. Any or all of that work he did in addition to serving as a magistrate, stockbreeder, lumberman, hunter, and soldier. The farmer-banker was an economically complicated person.

The farm occupations among the bankers may be described in two categories, first their prior experience, and second their current interest. Those who had been farmers earlier in their lives were in general men who had been born and raised on a farm. When the crop had been gathered, or the slaughtering and packing done, they rode with their fathers or older brothers to the neighboring mill, or helped manage the flatboat on the river. They learned at firsthand about marketing; and those who were more apt in trade gave more of their attention to it, helping both their own families and their neighbors. If a town merchant, a friend or relative, took an interest in them they were quite likely to become merchants themselves, and eventually to leave farming altogether. On the other hand, a considerable number of farmer-bankers were men who engaged simultaneously in both occupations. Such men, like many fellow townsmen, often bought lands simply as investments, lands they never saw, which they held for an increase in value, or rented. Many of them, however, retained the farms on which they had previously lived, with tenants to look after the work. A considerable number engaged in farm work themselves, particularly stock-breeding, but not alone, for such farming was not a one-man enterprise. They often divided their time between town and rural residence. Few or

none of them were completely "gentlemen farmers" in the sense of living in the country with unsoiled hands.[7]

The group of merchants, in which almost all of the bank directors might be numbered, was probably the most complex of all. The mercantile character of the community may briefly be described through the main forms of merchandising. There were ten or a dozen auction houses, several of them maintained by recent immigrants from New England whose connections with New England importers seem to have been significant. There was a similar and probably a larger number of fairly large-scale merchants who imported goods from Philadelphia and Baltimore. They were described by a contemporary observer as branches of eastern houses, but they took a larger part in local banking than the New England group. There was also a system of export merchandising. In the years before 1817 it had become gradually concentrated in the hands of two large partnerships in down-river barge and keel-boat traffic. There was in addition a lively river export trade carried on by individual farmers who took their own produce and that of their neighbors by flatboat down the Ohio and Mississippi, and a growing import business from the Mississippi valley. The system was radically altered in 1817 and the following years by the rapid extension of steamboat traffic, the break-up of the barge duopoly, the availability of new capital, and other factors that created a much larger interest in river trade. Finally, there was local mercantile activity. It included city retailers of imported produce, purchasers from rural producers, distributors to rural storekeepers, and traders in local manufactured products. In one way or another each of those forms of mercantile activity was represented in the banking group of the city. Which were dominant at any particular time seems almost im-

[7] The initial personal farming experiences of three of the bankers are specifically and vividly described (for John H. Piatt) in *A Memorial Biography of Benjamin M. Piatt and Elizabeth, his wife* (Washington, 1887), N. Louise Lodge, *The Tribe of Jacob [Piatt]* (3d ed., Springfield, Mo., 1934), and M. Joblin & Company, *Cincinnati Past and Present* (Cincinnati, 1872), p. 200; (for Daniel Drake) in *Daniel Drake, Pioneer Life in Kentucky, 1785–1800*, ed., Emmet F. Horine (New York, 1948); and (for John Sutherland) in *A History and Biographical Cyclopedia of Butler County* (1882), 287–8, and Bert S. Bartlow and others (eds.), *Centennial History of Butler County, Ohio* (1905), 939–40.

The less-often described farming activities of the men while they were bankers may be seen by reading the John C. Short Family Papers (Mss, Library of Congress), especially Boxes 18, 19, and 56; the William Henry Harrison Mss (Library of Congress), Vol. VI and Acc. 3636, both representing Harrison; and the Isaac Bates Mss (Historical and Philosophical Society of Ohio), representing James Findlay and Andrew Mack.

possible to determine. The structure and peculiarities of each, however, seem essential to an understanding of the activities of the bankers as a group in the face of the various problems they had to meet.

In general, it may be said that almost none of the bankers devoted themselves exclusively to banking as an occupation. Even the few who held full-time positions for their banks, the cashiers and presidents, had a range of other economic interests — manufacturing, land investment, milling, merchandising, and law — to which they gave considerable attention during the years they served their banks. Only the bank employees, the tellers, clerks, and bookkeepers, who are not included in this study, seem to have been engaged exclusively in banking; and even among them there were sometimes other occupational interests. The group is thus, in a sense, a cross section of town businessmen. The homogeneity of the group is established, first, simply by definition in that the members were bank directors, cashiers, and presidents, and second, by the varying extent to which they were re-elected to their positions year after year and were thus in the process of developing gradually a banking orientation. The emergence of a homogeneous group during the first part of the period was interrupted after the beginning of the panic of 1819 by a tendency to replace incumbent directors by other men.

The attitudes of the bank group toward banking and the economy during the period are particularly interesting, but they are also exceptionally obscure. Two approaches seem possible. One is through fairly extensive surviving private correspondence, the other through the record of their actions. In the present state of historical research neither is completely satisfactory. Neither the correspondence nor the records of action can be fairly interpreted and evaluated without far more detailed study of the bankers' backgrounds than any yet undertaken. A few meaningful observations can be made, however, about the actual banking services performed by the bankers and about their broad economic relationships with the community.

An examination of the banking services is best approached from a study of the work that was done, rather than from statements of purpose, achievement, or failure made by the bankers, their friends, or their critics. While economic conditions were satisfactory to the bankers and to the community generally there was no need to explain the work privately or to make public declarations.[8] When

[8] Newspapers were generally silent on the subject; there was no demand for explanation. Private correspondence offers abundant detail on the mechanical

conditions suddenly turned worse and continued to deteriorate, the bankers tried briefly to defend themselves, but soon found that it was an unpopular venture and lapsed into silence. Their critics were more interested in apportioning blame and turning individual unpopularity to political advantage than they were in appraising the services that had been rendered.[9]

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procedures by which the banks performed their services, but only indirect evidence of what those services were. See particularly the remarkably vivid and detailed letters, including banking house conversations, from John C. Short to William Short for the years 1817–20 (Short Family Papers, Library of Congress). Public statements were usually made by the bankers only when exceptional action required explanation. A suspension of specie payment was the most common occasion. See the resolutions adopted by a public meeting at Cincinnati, 26 Dec. 1814 stating "unless the Western Banks had stopped specie payments, their vaults would have been drained so far as to injure not only themselves, but farming and mercantile interests generally" (*Western Spy*, 17 Jan. 1815); the report of a state bank convention at Chillicothe, 6 Sept. 1816 (*Western Spy*, 20 Sept. 1816). Some information is contained in newspapers written by men closely associated with the banking group. One of the owners of the *Liberty Hall and Cincinnati Gazette*, for example, was a banker and the paper was for a time edited by another banker and his brother-in-law. Resolutions, committee reports, and debates in the state legislature on the subject of banking in 1817 and 1818 are uninformative in respect to methods of operation.

[9] A defense of western banks against "oppression" by the Bank of the United States appeared in the *Western Spy*, 28 March 1818. The general financial situation had previously been examined in the Cincinnati *Liberty Hall*, 15, 22, 29 Sept. 1817, and the currency problem by public meetings 7 and 14 Feb. 1818, reported in the *Western Spy*, 7 and 28 Feb. 1818. At the beginning of the crisis a remonstrance was sent by representatives of the Cincinnati banks, 20 Aug. 1818, in reply to action taken by the Bank of the United States in Philadelphia (*American State Papers, Finance*, IV, 859–61). Soon after, a petition was sent by a state bank convention at Chillicothe, 30 Oct. 1818, to the Ohio state legislature (*Western Spy*, 23 Jan. 1819). At the climax of the crisis a series of resolutions was adopted by a public meeting held in Cincinnati 7 Nov. 1818, and a more elaborate committee report was received 12 Nov. (*Western Spy*, 14 Nov.; *Inquisitor and Cincinnati Advertiser*, 10, 17 Nov.; *Liberty Hall*, 10, 17 Nov. 1818). From this time on the newspapers were filled with information and comment on financial and general economic conditions. Political criticism of bankers on banking began to appear after mid-August, 1819, in newspapers and broadsides. It continued in considerable volume for about four years. The actions of bank cashier Gorham A. Worth, Oct.-Dec., 1819, may be followed in a dramatic series of his letters (H.P.S.O. *Quarterly Publications*, VI, No. 2 [April–June, 1911], 20–35).

After the critical attacks on the banks and bankers of this period came to a close, a retrospective literature gradually emerged, in part defensive or apologetic. Among the best examples are a study in the *Cincinnati Daily Gazette*, 19 Nov. 1827; Jacob Burnet, *Notes on the Early Settlement of the Northwestern Territory* (Cincinnati, 1847), 407–11; Gorham A. Worth, *Recollections of Cincinnati, From a Residence of Five Years, 1817 to 1821* (Albany, 1851), reprinted in H.P.S.O. *Quarterly Publications*, XI, Nos. 2 & 3 (April-July, 1916); and among briefer statements the recollections of Timothy Kirby in M. Joblin & Co., *Cincinnati Past and Present* (Cincinnati, 1872), 76; of Edward D. Mansfield in his *Memoirs of the Life and Services of Daniel Drake*

Such direct evidence as is available suggests that in earlier days in Cincinnati, and even after 1815 in less highly developed western communities, the banks seem originally to have performed two main functions: first, providing a mechanism by which credit could be extended through a series of persons from the farmer to the New Orleans merchant (a series typically including a miller, brewer, or packer, a commission merchant, and an exporter with a partner or agent in New Orleans); and second, providing an agency for deposit and investment of capital (sometimes specie, notes, or bonds brought by immigrants from the East, more commonly capital accumulated slowly and in small amounts through the export of agricultural produce to the New Orleans market).[10]

During the years of prosperity from 1815 to the end of 1818 the principal services rendered by the banks appear to have been the

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(Cincinnati, 1855), 117, and *Personal Memories Social, Political, and Literary* (Cincinnati, 1879), 167–218; and of John F. Dufour in Perret Dufour, "The Swiss Settlement of Switzerland County, Indiana," *Indiana Historical Collections*, XIII (1925), 79–80.

This literature commonly became primarily an assignment and distribution of blame for the disasters of 1818–23, and that attribute has continued to characterize most of the subsequent writing. Only in the most recent years has an effort been made to turn attention from an apportionment of blame to an assessment of the work that was actually done by the bankers of that period.

[10] The extensive, important, but highly specialized functions of the western banks in the War of 1812 are excluded from consideration. On earlier banking, see footnote 3 above, Daniel Drake, *Natural and Statistical View or Picture of Cincinnati and the Miami Country* (Cincinnati, 1815); John J. Rowe, "Money and Banks in Cincinnati Pre-Civil War," H.P.S.O. *Bulletin*, VI (July, 1948), 74–99.

Uncertainty about the appropriate functions of banks, and the miscellaneous variety of their interests, are shown typically in the earlier years by the Miami Exporting Company, and later by the activities of such other banks as the Dayton Manufacturing Company (Feb., 1814) and the Little Miami Canal and Banking Company (Dec., 1817). Their work seems to have been closely related to that of nonbanking firms such as the (Cincinnati) Union Trading Company (Dec., 1817). On the other hand, many banking functions were performed by other men than bankers. Paper notes were issued by individual merchants (*e.g.*, Benjamin W. Leathers) and by the corporation of Cincinnati, beginning in May, 1817 (Cincinnati Town Records, John Day Caldwell Mss, I, 211 *verso*, H.P.S.O.; annual reports of the town and city treasurer, published in local newspapers).

The notices published by various bank cashiers in the local newspapers calling for partial payments on stock subscriptions show one method by which capital was accumulated, a wide variety of money and farm produce being acceptable in payment. Another method of capital accumulation is evident in the financial records of large-scale owners of western lands such as William Lytle (Lytle Mss, H.P.S.O.), William Short of Philadelphia (Short Family Papers, Library of Congress), and John Cleves Symmes (William Henry Harrison Mss, Library of Congress). The work of merchant-bankers in an exporting partnership is presented in detail in the example of Baum & Perry

supply of local bank notes, an essential "medium of circulation" in a country where specie was scarce and United States notes and United States Bank notes almost unknown; correlative service in the detection of counterfeiting; the financing of the export trade to New Orleans, St. Louis, Natchez, and a wide western market; the financing of eastern imports, both from Europe and from seaboard industrial and commercial centers; the facilitation of public land purchases and payment for them both by individuals to the western receivers of public moneys and by the receivers to the government; the provision of capital for some industrial development and for a large number of commercial enterprises; the concentration of old and accumulation of new capital; the accumulation of profits and payment of dividends therefrom to purchasers of bank stock; and a variety of services rendered directly to the government in connection with military pay and provisioning, tax collection, Indian subsidies, and other matters.[11]

During the years after 1819 the contraction of bank activities, voluntary or involuntary, meant a reduction of services in each of

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(later Baum, Sloo & Co.) which may be followed (1814–17) through newspaper advertisements, the Miami Exporting Company Account Books (M.E.C. Mss, H.P.S.O.), and correspondence of the partners (H.P.S.O. *Quarterly Publications*, IV [July-Sept., 1909], 132–8).

[11] The basic evidence for these services is to be found in the following sources: Miami Exporting Company Account Books, Journal, and Stock Books (M.E.C. Mss, H.P.S.O.); the annual statements of western banks published in local newspapers; *American State Papers*, principally *Finance* Vols. III and IV, *Public Lands* Vol. III, *Miscellaneous* Vol. II, and *Claims*; records of the U.S. District Courts, Cincinnati, Ohio (see footnote 15 below) and Frankfort, Kentucky; Cincinnati City Court Docket, May, 1819–Dec., 1821 (Mss, H.P.S.O.); records of John H. Piatt & Co. (privately owned in Cincinnati); evidence in the Piatt case (see footnote 15 below); personal financial records of James Findlay, William Henry Harrison, William Lytle (particularly in the Torrence Papers, H.P.S.O.), William Short, and many others; financial records of certain business partnerships such as the Merino Sheep Company (Isaac Bates Mss, H.P.S.O.) and fragmentary records of others such as the Cincinnati Bell, Brass, and Iron Foundry, accessible through the court records mentioned above; reports of banks and bank letters to the governor of the state (Ethan Allen Brown Mss, Ohio State Library, Columbus); U.S. Department of War, Bureau of Indian Affairs, Letter Books (National Archives) on the work of Indian agents and military contractors.

A distinction should be noted between those who borrowed from the banks and those who invested in them. The former group, which may be identified from the voluminous court records, official notices of suits published in the newspapers, and the M.E.C. Account Books, consisted to a large extent of merchants, with some manufacturers and a few others. The latter, particularly the 79 individually identified stockholders in the Miami Exporting Company and a few others whose ownership is shown by public notice of administrators on the disposition of estates, included many merchants but also a quite considerable proportion of landowners and farmers, mechanics, lawyers, and others.

those areas. By the end of 1823 only one among the five banks flourishing in Cincinnati in the prosperous years preceding 1819 remained in existence, and even it had ceased to function. The corresponding impacts on the total economic life of the West varied from mild to disastrous, and as the banks were a focus of such difficulties, they became a target of attack.

In broad familiar terms, the services performed by the western bankers of the period permitted the economic development of the West to take place more rapidly than occurred in their absence and helped to establish a closer economic relationship with other parts of the nation. Of particular interest for the purposes of the present study, the intimate interrelationship between the functions of the frontier banks and the needs of the local farmers and merchants helps explain why so many of those farmers and merchants added banking to their other occupational activities.

Turning to other aspects of the banking function and role in the community one may propose evaluations in six general areas: religion, kinship, culture, politics, economy, and civic affairs.

Although perhaps half of the adult population of the city were church members, only a few individuals may be identified through their religious affiliations; the bankers form no exception to that situation. It would seem that the largest number were Presbyterian or Episcopalian, and the next largest, though perhaps only half as numerous as either of the first two, were Quakers. In each instance a higher than average proportion of those church groups were bankers. The largest denominational group in the city was the Methodist, but a comparatively low proportion of the bankers seems to have come from that group. One or two of the bankers may have been Baptists and one a Swedenborgian. None seem to have been members of the other religious groups then existing there, Lutheran or Catholic.

The religious affiliations of two groups require special comment. The Episcopalians, comparatively numerous among the bankers, were a new community both in Cincinnati and, generally, in other towns of which it is representative. During 1817 considerable constructive work had been carried on in Ohio for the Episcopal church and a large number of parishes formed. Many of the bankers who appear subsequently as Episcopalians cannot be identified by religious affiliation in earlier years. Some of them certainly had previously had such background; but many of them almost certainly had not. Their attachment to this church may represent a new ecclesiastical interest following their newly developed economic and

sion of 1893–1897 that convinced the investing public of the soundness of industrial preferreds.

It is possible to distinguish four stages through which industrial securities passed on their way to general market acceptance. In the first stage, which existed before the late 1880's, these securities had a very narrow market. They rarely were listed on the Exchange. Sometimes they were traded on the "outside" curb, but more often they had only regional acceptance and exchanged hands only in direct person-to-person sales. Occasionally blocks of stock were offered on an auction basis. If a firm was sold outright, the price-earnings ratio tended to be low, frequently no more than three times average net income. It was under these market circumstances that the "trust" certificates began to be traded.

The success of the "trust" certificates introduced a second stage, which extended from 1890 to 1893. In this period industrial securities began to be listed on the Stock Exchange and to be traded by leading brokerage houses. A relatively new type of security, industrial preferreds, was issued and marketing groups were formed, usually under the auspices of brokerage houses, to assist stockholders who wished to liquidate part of their investment. Price-earnings ratios began to move up, and brokerage firms began to assure their clients that industrial commons ought to be worth approximately eight times average net income. In this stage, as in the earlier one, most of the trade remained at the stockholder level. Only rarely did companies issue new securities and sell them directly to the public as a means of raising funds. This development became general only in the third period.

When the merger promotions began late in 1897, the promoters were able to count on a market that was already conditioned by the sale of securities at the stockholder level. It was therefore not a difficult leap for the promoters to begin marketing securities on behalf of the companies themselves. In this third stage the funds raised by public sale were used to pay off former stockholders or to replace working capital and not to extend the company's operations. Furthermore these sales were not underwritten; the promoters simply made sure that they could sell the necessary blocks of securities before committing themselves to the merger. Viewed in terms of *number* of issues, this stage dominated the period 1897–1902. It would also have dominated the period in terms of *capital* issued had it not been for the work of J. P. Morgan & Company. It was the Morgan firm which introduced stage number four.

Since the third stage had inherent weaknesses, it did not survive

the end of the merger movement. By the very nature of their operation the merger promoters did not provide the funds necessary for an expanding industry and they could not, because of their limited capital resources, guarantee to the issuing companies the funds which a new issue of securities was intended to raise. The financial men who had been accustomed to raising new funds on a guaranteed basis were the investment bankers, and it was to them that industry eventually turned.

That the investment bankers were slow to enter the business of underwriting industrial securities is not surprising. With a market that was still relatively untested, bankers had to accept a high level of risk to underwrite industrial securities. Furthermore, most of the old railroad houses had been accustomed to underwriting bonds and had conditioned their customers to think of bonds when they thought of investment. In the early 1890's some of these houses had in fact underwritten industrial bonds. But it was preferred stock that was to gain popular acceptance among industrial securities, and the underwriting of preferred issues was something the investment bankers came to slowly. J. P. Morgan & Company led the field in 1898 with the others following only in a cautious way. Not, indeed, until after 1902 did industrial securities settle into the fourth stage of securities marketing — the stage when underwriting of issues came into general practice.

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Bank Enterprisers in a Western Town, 1815-1822

When attention is shifted from individual entrepreneur to the socio-economic group of which he is a part, new historical perspectives are opened to view. This study of a group of bankers in frontier Cincinnati considerably sharpens the historical concept of the "Western Banker" and provides insight into the nature of the banking function in a developing economy. The data employed yield significant conclusions about the nature of the bankers' backgrounds and about the importance both of those backgrounds and of the frontier environment in shaping the bankers' function and role.

In an article on "Problems and Challenges in Business History Research with Special Reference to Entrepreneurial History," published in the *Bulletin of the Business Historical Society* (September, 1950), Thomas C. Cochran challenged historians with the assertion that "we cannot place business men as a group in society. . . ." While he raised a large number of questions, he suggested also a number of new approaches, and observed "that shifting the focus from the firm to a large social group of men performing similar roles leads to new questions and methods."

The following study describes a group of Cincinnati bankers in the eight years following the War of 1812, a period embracing the start of the great population movement into the Old Northwest. It is neither an attempt to assess the historical importance of their work nor to locate their position within a narrative of more general historical events, but rather to identify and assess such group characteristics as appear to have been present and, insofar as possible, to relate those characteristics to the environment in which they existed.

Fortunately, the names of many of the earliest western bankers of that period may be discovered in several communities. They were often published in local newspapers, and the establishment of a press usually preceded the establishment of a bank. Information about the men upon which this study is based was obtained from

cemetery records, local histories, church archives, newspapers, court records, and other sources.[1]

Preliminary study of a considerable number of bankers in eight towns of Ohio and Kentucky suggests that in each community they represented approximately the same backgrounds, activities, and interests, and performed equivalent services. In the newer and smaller towns they were somewhat different as groups from those in older and larger centers, but the same general processes of de-

[1] The most common general source of information is the local newspaper obituary. To facilitate finding it without giving each citation separately the date of death (where known) is given parenthetically following the name. The bankers on whom the study is based are as follows: John Andrews; John Armstrong (6 Sept. 1839); William Barr (18 March 1837); Martin Baum (14 Dec. 1831); Jacob Baymiller (July, 1824); Ethan Allen Brown (24 Feb. 1852); Isaac G. Burnet (11 March 1856); Jacob Burnet (10 May 1853); Thomas Davis Carneal (3 Nov. 1860); Francis Carr (23 July 1833); William Corry (16 Dec. 1833); John Cranmer (1832); Samuel W. Davies (21 Dec. 1843); John Davis; Daniel Drake (6 Nov. 1852); William Eaton; David Kirkpatrick Este (1 April 1876); James Ferguson (21 Oct. 1853); Abraham Ferris (1861); James Findlay (28 Dec. 1835); Daniel Gano (17 Aug. 1873); John Stites Gano (1 Jan. 1822); John Gibson, Jr. (26 July 1849); Joshua Gibson (19 April 1823); Hugh Glenn (28 May 1833); James Glenn; Thomas Graham (29 March 1838); Philip Grandin (29 Jan. 1858); David Griffin (6 Nov. 1854); William Harlow; William Henry Harrison (4 April 1841); David Holloway; Lewis Howell (Aug. 1858 ?); Jesse Hunt (24 Aug. 1835); William Irwin (1824); Levi James (27 July 1849); Cave Johnson; James Keys; John F. Keys; David Kilgour; Nicholas Longworth (10 Feb. 1863); Stephen McFarland (8 Nov. 1832); Andrew Mack (12 July 1854); Oliver Martin; Benjamin Mason (19 Oct. 1847); Daniel Mayo (25 Dec. 1838); Adam Moore (28 Dec. 1849); James C. Morris (25 June 1828); Samuel Newell; William Noble (23 May 1827); William Oliver (1851); Elijah Pearson (21 June 1833); Joseph Perry (1852); Samuel Perry (12 April 1855); Horatio G. Phillips (10 Nov. 1859); John Hopper Piatt (11 Feb. 1822); William Piatt (16 Aug. 1834); Job Pugh; Lot Pugh (2 April 1850); William Ramsey; Nathaniel Reeder (29 Dec. 1831); Lewis Rees; James Reynolds; James Riddle; William Ruffin (5 July 1834); Hezekiah Saunders (3 Jan. 1836); Thomas Sloo, Jr. (17 Jan. 1879); Richard Southgate; Oliver M. Spencer (30 May 1838); Thomas Stansbury; John Sterrett (23 June 1849); William Sterrett; Samuel Stitt (1847); Ethan Stone (20 April 1852); John Sutherland (9 Sept. 1834); James Taylor (7 Nov. 1848); George Paull Torrence (27 Aug. 1855); Samuel C. Vance; David Everett Wade (22 July 1842); John Sloan Wallace (28 July 1836); Calvin Washburn (9 Oct. 1835); Jacob Wheeler (10 July 1835); Jacob Williams (6 July 1840); Richard Williams; William Woodward (23 Jan. 1833); Gorham A. Worth (1856); William M. Worthington; Griffin Yeatman (4 March 1849).

Bibliographical references for seven of the men may be found appended to the sketches in the *Dictionary of American Biography*: Ethan A. Brown, Jacob Burnet, Daniel Drake, James Findlay, Hugh Glenn, William H. Harrison, and Nicholas Longworth. Sketches of David K. Este, John H. Piatt, James Taylor, and several of the others appear in *Appletons' Cyclopaedia of American Biography*. A number may be found in three standard reference works: *The Biographical Encyclopaedia of Ohio of the Nineteenth Century* (Cincinnati and Philadelphia, 1876); J. Fletcher Brennan (ed.), *A Biographical Cyclopaedia and Portrait Gallery of Distinguished Men, with an Historical Sketch of the*

velopment appear to have recurred quite regularly.[2] For the purposes of this study attention is centered on a single community in order to facilitate comparisons and to simplify the definition of the place of the bankers within the community. The community selected was one large enough to permit, in addition, some statistical generalizations.

The banking community in Cincinnati, Ohio, was one of the largest in the northwestern country during the years that followed the end of the war with Great Britain. The town had a population of about 6,500 in 1816. By 1820 it had grown to over 9,600, and by 1824 to more than 12,000. Although it was not large, even by the standards of that time, it was a commercial and industrial metropolis, the seat of the principal public land office in the Northwest, and

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State of Ohio (Cincinnati, 1879); and *The Biographical Cyclopaedia and Portrait Gallery with an Historical Sketch of the State of Ohio* (6 vols., Cincinnati, 1883–95). A larger number may be partially identified through six local histories: Henry A. Ford and Kate B. Ford, *History of Hamilton County, Ohio* (Cleveland, 1881); Ford and Ford, *History of Cincinnati, Ohio* (Cleveland, 1881); S. B. Nelson & Company, *History of Cincinnati and Hamilton County, Ohio: Their Past and Present* (Cincinnati, 1894); Charles T. Greve, *Centennial History of Cincinnati and Representative Citizens* (2 vols., Chicago, 1904); Charles F. Goss, *Cincinnati the Queen City, 1788–1912* (4 vols., Chicago, 1912); Lewis A. Leonard (ed.), *Greater Cincinnati and Its People: A History* (4 vols., New York, 1927).

There are special studies of a number of others. For example (on Martin Baum), Helmut Trepte, "Deutschtum in Ohio bis zum Jahre 1820," *Deutsch-Amerikanische Geschichtsblätter*, XXXII (1932), 279–304, and George A. Katzenberger, "Martin Baum," *Ohio Archaeological and Historical Quarterly*, XLIV (Jan., 1935), 204–19; (on Ethan A. Brown, in addition to the references in the *Dictionary of American Biography*) John S. Still, "The Life of Ethan Allen Brown Governor of Ohio" (Ms dissertation, Ohio State University, 1951); (on Isaac G. Burnet) Harry R. Stevens, "Cincinnati's Founding Fathers — Isaac G. Burnet," *Historical and Philosophical Society of Ohio Bulletin*, X (July, 1952), 231–9; (on O. M. Spencer) Virginius C. Hall, "Oliver M. Spencer, Man and Boy," *ibid.*, VIII (Oct., 1950), 233–57; (on Thomas Sloo, Jr.) John F. Snyder, "Thomas Sloo," *Illinois State Historical Society Transactions* for 1903 (Illinois State Historical Library Publication No. 8, Springfield, Ill., 1904), 201–6, and Isaac J. Cox, "Thomas Sloo, Jr., A Typical Politician of Early Illinois," *ibid.*, 1911 (I.S.H.L. Pub. No. 16, Springfield, Ill., 1913), 26–42.

[2] Bankers of the smaller towns in Ohio, Kentucky, and Indiana have been identified primarily through the scattered files of local newspapers and through city and county histories, those published between 1870 and 1905 having been most helpful. Newspaper advertisements often provide evidence of occupation, and the local histories sometimes include biographical data. Newspapers chiefly consulted were those at the Cincinnati Public Library, Historical and Philosophical Society of Ohio, Ohio State Museum, Western Reserve Historical Society, Newberry Library, Wisconsin State Historical Society, Library of Congress, and Duke Library. On county histories, see C. Stewart Peterson, *Bibliography of County Histories of the 3111 Counties in the 48 States* (2d ed., Baltimore, 1946, with supplement).

a center of financial activity that extended from Philadelphia to New Orleans and from Michilimackinac to the Rio Grande.[3]

During the eight-year period from 1815 to 1822 there were five banks in operation at one time or another in Cincinnati. They were the Miami Exporting Company (1803–1842), the Farmers and Mechanics' Bank of Cincinnati (1811–1823), the Bank of Cincinnati (1814–1822?), a branch office of discount and deposit of the second Bank of the United States (1817–1820), and a private banking partnership, John H. Piatt & Company (1817–1820).

It is possible to determine fairly well the number of men who served as officials of the five Cincinnati banks. The private firm of John H. Piatt consisted of three partners. Among the other banks the general practice was to have a board of 10 or 12 directors. The directors, as well as the presidents and cashiers were usually chosen for a term of one year. Not all of those elected served a full year, for there were occasional deaths, resignations, or removals from the community. The continuity of membership on the board varied from one bank to another, and from year to year. The presidents and cashiers were usually re-elected, and, with a variable proportion of re-elected directors, gave some stability to the government of the banks. It seems probable that there were about 124 men altogether who served as bank directors, presidents, or cashiers in Cincinnati during the eight-year period. Of the total number 88 have been identified by name.

A number of statistical considerations may first be noted, and then a general assessment made (based on biographical studies of the individuals and on a study of the entire community) of the bankers' role in the community. Perhaps the most remarkable statistical feature of the group from this standpoint is their number. The population of the city according to the census of 1820 included 1,672 free white males 26 years of age and over. All of the bank officials in the group studied were at that time 26 or over; and it would thus seem that at least 5 per cent, and perhaps as much as 7 per cent of the men in that age group had some direct responsibility in bank enterprise. The proportion is perhaps higher than might be expected in a new western city. It indicates clearly that, whatever the experience of

[3] C. C. Huntington, "A History of Banking and Currency in Ohio before the Civil War," *Ohio Archaeological and Historical Quarterly*, XXIV (July, 1915), 269–351; Maurice F. Neufeld, "Three Aspects of the Economic Life of Cincinnati from 1815 to 1840," *ibid.*, XLIV (Jan., 1935), 65–80; William T. Utter, *The Frontier State, 1803–1825* (Columbus, Ohio, 1942), 229–95; R. C. Buley, *The Old Northwest Pioneer Period, 1815–1840* (2 vols., Indianapolis, 1950), I, 565–603. The last work contains excellent bibliographical notes.

the individual bank official may have been, the community as a whole enjoyed a broadly shared experience in banking responsibilities.

Possibly the most easily measured characteristic is that of age. The birth dates of 65 members of the group are known. They range from 1754 to 1794, so that in 1821 the range in age was from 27 to 67. Both the median year of birth and the simple average of dates of birth were 1778. Perhaps of more significance was differentiation into two fairly clearly defined age groups. Forty-nine of the 65 were born in either of two periods, 16 from 1766 to 1771, and 33 from 1776 to 1788. Only a few were born during the intervening half decade. There were thus two groups, those who in 1821 were from 33 to 45, and those from 50 to 55, with the younger group about twice as numerous as the older.[4]

In the highly irregular age distribution through the city as a whole, which had an extremely large proportion of men from 17 to 35, both groups represented a fairly mature element. That emphasis is shown more strikingly and more justly, however, by comparison with other professional groups. To choose a single example, the bankers as a group were about eight years older than the members of the bar as it was constituted in 1819.[5]

Closely related to the subject of age was length of residence in the community. Eight of the bank group were not residents of the city, but lived in Dayton, Hamilton, or Chillicothe, Ohio, or nearby in Kentucky. Some others were rural residents of the county. Most of the group were immigrants, the area being as yet too new to have an adult native-born population of any appreciable size. Among 64 whose date of arrival in the West can be determined, all but one had come before the close of the War of 1812. The one exception was the cashier sent from New York to work in the branch office of the Bank of the United States. The others had arrived between 1788, the year of the first settlement in the territory northwest of the Ohio River, and the end of 1814. The median year of arrival was 1798. Half of the group, that is, had come to the community within its first decade. Here again a significant grouping may be

[4] Evidence of age is taken chiefly from the newspaper obituaries, a variety of biographical memoirs and reminiscences, the *Cincinnati Pioneer* (5 nos. in 1 vol., Cincinnati, 1873–75), and the extremely valuable manuscript card index of the Spring Grove Cemetery Association, Cincinnati, Ohio.

[5] The general data contained in the Census Report of 1820 must be supplemented by the information in two city directories, Oliver Farnsworth (comp. and ed.), *Cincinnati Directory for 1819*, and Harvey Hall (ed.), *Cincinnati Directory for 1825*.

noted. There were three main periods of immigration among those who became bankers: the earliest from 1788 to 1792, a second, after the close of the Indian wars, from 1795 to 1798, and a third, during the early years of statehood, from 1802 to 1809. It seems likely that the differences in length of residence in the West may have had some relationship to attitudes on several basic matters of financial and commercial policy. Those who had experienced the early starving times and Indian raids sometimes felt themselves to have a different interest in the community from those who came in the more tranquil years after a state government had been created and Louisiana had been annexed to the United States in 1803. During the financial troubles of 1818–24 such differences of experience and outlook seem to have had some bearing on their actions.

The subject of immigration involves a consideration of the geographical origins of the banking group. For rather a high proportion – 77 of the 88 – the place of birth may be identified. Among them 29 per cent were born in Pennsylvania, 23 per cent in New Jersey, 16 per cent in Virginia (including West Virginia), 9 per cent in Maryland, 7 per cent in Great Britain, 5 per cent in Connecticut, 4 per cent in Massachusetts, and 7 per cent in various other places. At first glance their places of birth seem plain enough in meaning, for they correspond in a general way to the places of origin of the population of the whole community. However, a comparison may be made with the nativity of the whole adult male population in 1825, and from such a comparison some interesting variations may be noted. The nativity of the whole adult male population showed: from Pennsylvania 15.7 per cent, from New Jersey 13.4 per cent, from New York 9.3 per cent, from Great Britain 16.6 per cent, from Massachusetts 7.3 per cent, from Maryland 6.8 per cent, from Connecticut 5.7 per cent, and from Virginia 4.5 per cent.[6]

[6] The city directories cited above provide the basic data. The *Directory for 1825* provides (p. 7) a tabular summary of this information, and in its alphabetical listing of 2,427 heads of families usually includes the place of origin of each individual. This information seems to refer in many instances, however, to the last place of residence prior to removal to Ohio rather than to place of birth. A large portion of it has been checked and corrected, and some additional information supplied by reference to the manuscript card index of the Spring Grove Cemetery Association (Cincinnati, Ohio), the manuscript obituary index of the Historical and Philosophical Society of Ohio, extensive biographical notes in Nova Caesarea Harmony Lodge No. 2 (Masonic) Records (John Day Caldwell Mss, H.P.S.O.), cemetery inscriptions published in the "Genealogical Department" of the H.P.S.O. *Bulletin*, the printed sources mentioned in footnote 1 above, and certain other works such as *In Memoriam*,

Thus it appears that there was a high proportion of bankers from New Jersey and Virginia, a moderately high proportion from Pennsylvania, and above average from Maryland, but bankers from Connecticut and Massachusetts were below their proportion in the total population, and from New York and Great Britain far below.

Certain features of the distribution may be readily explained. The New Jersey and Pennsylvania elements were among the earliest to settle in the community, and were exceptionally well-established. The New England element had arrived for the most part after 1815, and was not yet engaged in banking, although extensively interested in commerce. On the other hand the Virginia and Maryland element is remarkable. In one instance it suggests the commercial experience and connections of men from Baltimore; in the other, a more tenuous relationship may be proposed. A good many of the Virginians who moved to the Ohio River town engaged in small-scale storekeeping. It was from that element that some at least of the Virginia bankers emerged, and their backgrounds and associations seem to have given a special character to much of the local bank enterprise. Finally, the relative absence of New Yorkers and New Englanders requires a further explanation. Many of the immigrants from those areas were craftsmen and skilled mechanics of various sorts, ship carpenters, shoemakers, cabinet-makers, metal workers, printers and the like, rather than farmers; and it is one of the noteworthy features of the group that individual progress into banking was made more frequently from farming than from manufacturing. No single formula thus appears to explain the variations in the proportions of men from different eastern communities who were to be found as bankers in Cincinnati during this period.

The inquiry thus leads to a consideration of the nature and extent of the business experience of the members of the banking group. That experience may be grouped in four categories. A small but important number of the bankers were professional men. Among them were one minister, two physicians, and nine lawyers. A considerable number were farmers, and perhaps a majority of the bankers had done a good bit of farming at some time in their lives. By far the largest proportion were or had been merchants. Finally, a fairly large number may be described as business enterprisers. To the last category may be assigned the mechanic-manufacturers, such as the hatmakers, the nail-maker, and the notably large number of six

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1881 (Cincinnati, 1881) and Charles Cist, *Cincinnati Miscellany* (Cincinnati, 1844–46).

tanners; there, too, perhaps, should be placed the pork packers and produce shippers, the miller-merchants, and those who were investing in or managing the new factory industries, the sugar mill, the glass factory, the wool and cotton mills, and the bell, brass, and iron foundry.

Perhaps the category of business enterprisers is too broad and diverse to be of any great value; in other ways the simpler groups of farmers and merchants are not less complex and misleading categories. The farmer of that community, and particularly the farmer who became a bank director, was often also a merchant. He took his produce to the city market, or shipped it down the river in his own barge, frequently conveying it personally, sometimes with the produce of his neighbors. He bought and sold, and kept records. He took his grain to a neighboring mill, often a mill that he owned or in which he had invested both labor and capital and was a partner. He might maintain a small rural store in his own community; and he was very likely to be a land speculator. Any or all of that work he did in addition to serving as a magistrate, stockbreeder, lumberman, hunter, and soldier. The farmer-banker was an economically complicated person.

The farm occupations among the bankers may be described in two categories, first their prior experience, and second their current interest. Those who had been farmers earlier in their lives were in general men who had been born and raised on a farm. When the crop had been gathered, or the slaughtering and packing done, they rode with their fathers or older brothers to the neighboring mill, or helped manage the flatboat on the river. They learned at firsthand about marketing; and those who were more apt in trade gave more of their attention to it, helping both their own families and their neighbors. If a town merchant, a friend or relative, took an interest in them they were quite likely to become merchants themselves, and eventually to leave farming altogether. On the other hand, a considerable number of farmer-bankers were men who engaged simultaneously in both occupations. Such men, like many fellow townsmen, often bought lands simply as investments, lands they never saw, which they held for an increase in value, or rented. Many of them, however, retained the farms on which they had previously lived, with tenants to look after the work. A considerable number engaged in farm work themselves, particularly stock-breeding, but not alone, for such farming was not a one-man enterprise. They often divided their time between town and rural residence. Few or

none of them were completely "gentlemen farmers" in the sense of living in the country with unsoiled hands.[7]

The group of merchants, in which almost all of the bank directors might be numbered, was probably the most complex of all. The mercantile character of the community may briefly be described through the main forms of merchandising. There were ten or a dozen auction houses, several of them maintained by recent immigrants from New England whose connections with New England importers seem to have been significant. There was a similar and probably a larger number of fairly large-scale merchants who imported goods from Philadelphia and Baltimore. They were described by a contemporary observer as branches of eastern houses, but they took a larger part in local banking than the New England group. There was also a system of export merchandising. In the years before 1817 it had become gradually concentrated in the hands of two large partnerships in down-river barge and keel-boat traffic. There was in addition a lively river export trade carried on by individual farmers who took their own produce and that of their neighbors by flatboat down the Ohio and Mississippi, and a growing import business from the Mississippi valley. The system was radically altered in 1817 and the following years by the rapid extension of steamboat traffic, the break-up of the barge duopoly, the availability of new capital, and other factors that created a much larger interest in river trade. Finally, there was local mercantile activity. It included city retailers of imported produce, purchasers from rural producers, distributors to rural storekeepers, and traders in local manufactured products. In one way or another each of those forms of mercantile activity was represented in the banking group of the city. Which were dominant at any particular time seems almost im-

[7] The initial personal farming experiences of three of the bankers are specifically and vividly described (for John H. Piatt) in *A Memorial Biography of Benjamin M. Piatt and Elizabeth, his wife* (Washington, 1887), N. Louise Lodge, *The Tribe of Jacob [Piatt]* (3d ed., Springfield, Mo., 1934), and M. Joblin & Company, *Cincinnati Past and Present* (Cincinnati, 1872), p. 200; (for Daniel Drake) in *Daniel Drake, Pioneer Life in Kentucky, 1785–1800*, ed., Emmet F. Horine (New York, 1948); and (for John Sutherland) in *A History and Biographical Cyclopedia of Butler County* (1882), 287–8, and Bert S. Bartlow and others (eds.), *Centennial History of Butler County, Ohio* (1905), 939–40.

The less-often described farming activities of the men while they were bankers may be seen by reading the John C. Short Family Papers (Mss, Library of Congress), especially Boxes 18, 19, and 56; the William Henry Harrison Mss (Library of Congress), Vol. VI and Acc. 3636, both representing Harrison; and the Isaac Bates Mss (Historical and Philosophical Society of Ohio), representing James Findlay and Andrew Mack.

possible to determine. The structure and peculiarities of each, however, seem essential to an understanding of the activities of the bankers as a group in the face of the various problems they had to meet.

In general, it may be said that almost none of the bankers devoted themselves exclusively to banking as an occupation. Even the few who held full-time positions for their banks, the cashiers and presidents, had a range of other economic interests – manufacturing, land investment, milling, merchandising, and law – to which they gave considerable attention during the years they served their banks. Only the bank employees, the tellers, clerks, and bookkeepers, who are not included in this study, seem to have been engaged exclusively in banking; and even among them there were sometimes other occupational interests. The group is thus, in a sense, a cross section of town businessmen. The homogeneity of the group is established, first, simply by definition in that the members were bank directors, cashiers, and presidents, and second, by the varying extent to which they were re-elected to their positions year after year and were thus in the process of developing gradually a banking orientation. The emergence of a homogeneous group during the first part of the period was interrupted after the beginning of the panic of 1819 by a tendency to replace incumbent directors by other men.

The attitudes of the bank group toward banking and the economy during the period are particularly interesting, but they are also exceptionally obscure. Two approaches seem possible. One is through fairly extensive surviving private correspondence, the other through the record of their actions. In the present state of historical research neither is completely satisfactory. Neither the correspondence nor the records of action can be fairly interpreted and evaluated without far more detailed study of the bankers' backgrounds than any yet undertaken. A few meaningful observations can be made, however, about the actual banking services performed by the bankers and about their broad economic relationships with the community.

An examination of the banking services is best approached from a study of the work that was done, rather than from statements of purpose, achievement, or failure made by the bankers, their friends, or their critics. While economic conditions were satisfactory to the bankers and to the community generally there was no need to explain the work privately or to make public declarations.[8] When

[8] Newspapers were generally silent on the subject; there was no demand for explanation. Private correspondence offers abundant detail on the mechanical

conditions suddenly turned worse and continued to deteriorate, the bankers tried briefly to defend themselves, but soon found that it was an unpopular venture and lapsed into silence. Their critics were more interested in apportioning blame and turning individual unpopularity to political advantage than they were in appraising the services that had been rendered.[9]

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procedures by which the banks performed their services, but only indirect evidence of what those services were. See particularly the remarkably vivid and detailed letters, including banking house conversations, from John C. Short to William Short for the years 1817–20 (Short Family Papers, Library of Congress). Public statements were usually made by the bankers only when exceptional action required explanation. A suspension of specie payment was the most common occasion. See the resolutions adopted by a public meeting at Cincinnati, 26 Dec. 1814 stating "unless the Western Banks had stopped specie payments, their vaults would have been drained so far as to injure not only themselves, but farming and mercantile interests generally" (*Western Spy*, 17 Jan. 1815); the report of a state bank convention at Chillicothe, 6 Sept. 1816 (*Western Spy*, 20 Sept. 1816). Some information is contained in newspapers written by men closely associated with the banking group. One of the owners of the *Liberty Hall and Cincinnati Gazette*, for example, was a banker and the paper was for a time edited by another banker and his brother-in-law. Resolutions, committee reports, and debates in the state legislature on the subject of banking in 1817 and 1818 are uninformative in respect to methods of operation.

[9] A defense of western banks against "oppression" by the Bank of the United States appeared in the *Western Spy*, 28 March 1818. The general financial situation had previously been examined in the Cincinnati *Liberty Hall*, 15, 22, 29 Sept. 1817, and the currency problem by public meetings 7 and 14 Feb. 1818, reported in the *Western Spy*, 7 and 28 Feb. 1818. At the beginning of the crisis a remonstrance was sent by representatives of the Cincinnati banks, 20 Aug. 1818, in reply to action taken by the Bank of the United States in Philadelphia (*American State Papers, Finance*, IV, 859–61). Soon after, a petition was sent by a state bank convention at Chillicothe, 30 Oct. 1818, to the Ohio state legislature (*Western Spy*, 23 Jan. 1819). At the climax of the crisis a series of resolutions was adopted by a public meeting held in Cincinnati 7 Nov. 1818, and a more elaborate committee report was received 12 Nov. (*Western Spy*, 14 Nov.; *Inquisitor and Cincinnati Advertiser*, 10, 17 Nov.; *Liberty Hall*, 10, 17 Nov. 1818). From this time on the newspapers were filled with information and comment on financial and general economic conditions. Political criticism of bankers on banking began to appear after mid-August, 1819, in newspapers and broadsides. It continued in considerable volume for about four years. The actions of bank cashier Gorham A. Worth, Oct.-Dec., 1819, may be followed in a dramatic series of his letters (H.P.S.O. *Quarterly Publications*, VI, No. 2 [April–June, 1911], 20–35).

After the critical attacks on the banks and bankers of this period came to a close, a retrospective literature gradually emerged, in part defensive or apologetic. Among the best examples are a study in the *Cincinnati Daily Gazette*, 19 Nov. 1827; Jacob Burnet, *Notes on the Early Settlement of the Northwestern Territory* (Cincinnati, 1847), 407–11; Gorham A. Worth, *Recollections of Cincinnati, From a Residence of Five Years, 1817 to 1821* (Albany, 1851), reprinted in H.P.S.O. *Quarterly Publications*, XI, Nos. 2 & 3 (April-July, 1916); and among briefer statements the recollections of Timothy Kirby in M. Joblin & Co., *Cincinnati Past and Present* (Cincinnati, 1872), 76; of Edward D. Mansfield in his *Memoirs of the Life and Services of Daniel Drake*

Such direct evidence as is available suggests that in earlier days in Cincinnati, and even after 1815 in less highly developed western communities, the banks seem originally to have performed two main functions: first, providing a mechanism by which credit could be extended through a series of persons from the farmer to the New Orleans merchant (a series typically including a miller, brewer, or packer, a commission merchant, and an exporter with a partner or agent in New Orleans); and second, providing an agency for deposit and investment of capital (sometimes specie, notes, or bonds brought by immigrants from the East, more commonly capital accumulated slowly and in small amounts through the export of agricultural produce to the New Orleans market).[10]

During the years of prosperity from 1815 to the end of 1818 the principal services rendered by the banks appear to have been the

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(Cincinnati, 1855), 117, and *Personal Memories Social, Political, and Literary* (Cincinnati, 1879), 167–218; and of John F. Dufour in Perret Dufour, "The Swiss Settlement of Switzerland County, Indiana," *Indiana Historical Collections*, XIII (1925), 79–80.

This literature commonly became primarily an assignment and distribution of blame for the disasters of 1818–23, and that attribute has continued to characterize most of the subsequent writing. Only in the most recent years has an effort been made to turn attention from an apportionment of blame to an assessment of the work that was actually done by the bankers of that period.

[10] The extensive, important, but highly specialized functions of the western banks in the War of 1812 are excluded from consideration. On earlier banking, see footnote 3 above, Daniel Drake, *Natural and Statistical View or Picture of Cincinnati and the Miami Country* (Cincinnati, 1815); John J. Rowe, "Money and Banks in Cincinnati Pre-Civil War," H.P.S.O. *Bulletin*, VI (July, 1948), 74–99.

Uncertainty about the appropriate functions of banks, and the miscellaneous variety of their interests, are shown typically in the earlier years by the Miami Exporting Company, and later by the activities of such other banks as the Dayton Manufacturing Company (Feb., 1814) and the Little Miami Canal and Banking Company (Dec., 1817). Their work seems to have been closely related to that of nonbanking firms such as the (Cincinnati) Union Trading Company (Dec., 1817). On the other hand, many banking functions were performed by other men than bankers. Paper notes were issued by individual merchants (*e.g.*, Benjamin W. Leathers) and by the corporation of Cincinnati, beginning in May, 1817 (Cincinnati Town Records, John Day Caldwell Mss, I, 211 *verso*, H.P.S.O.; annual reports of the town and city treasurer, published in local newspapers).

The notices published by various bank cashiers in the local newspapers calling for partial payments on stock subscriptions show one method by which capital was accumulated, a wide variety of money and farm produce being acceptable in payment. Another method of capital accumulation is evident in the financial records of large-scale owners of western lands such as William Lytle (Lytle Mss, H.P.S.O.), William Short of Philadelphia (Short Family Papers, Library of Congress), and John Cleves Symmes (William Henry Harrison Mss, Library of Congress). The work of merchant-bankers in an exporting partnership is presented in detail in the example of Baum & Perry

supply of local bank notes, an essential "medium of circulation" in a country where specie was scarce and United States notes and United States Bank notes almost unknown; correlative service in the detection of counterfeiting; the financing of the export trade to New Orleans, St. Louis, Natchez, and a wide western market; the financing of eastern imports, both from Europe and from seaboard industrial and commercial centers; the facilitation of public land purchases and payment for them both by individuals to the western receivers of public moneys and by the receivers to the government; the provision of capital for some industrial development and for a large number of commercial enterprises; the concentration of old and accumulation of new capital; the accumulation of profits and payment of dividends therefrom to purchasers of bank stock; and a variety of services rendered directly to the government in connection with military pay and provisioning, tax collection, Indian subsidies, and other matters.[11]

During the years after 1819 the contraction of bank activities, voluntary or involuntary, meant a reduction of services in each of

(later Baum, Sloo & Co.) which may be followed (1814–17) through newspaper advertisements, the Miami Exporting Company Account Books (M.E.C. Mss, H.P.S.O.), and correspondence of the partners (H.P.S.O. *Quarterly Publications*, IV [July-Sept., 1909], 132–8).

[11] The basic evidence for these services is to be found in the following sources: Miami Exporting Company Account Books, Journal, and Stock Books (M.E.C. Mss, H.P.S.O.); the annual statements of western banks published in local newspapers; *American State Papers*, principally *Finance* Vols. III and IV, *Public Lands* Vol. III, *Miscellaneous* Vol. II, and *Claims*; records of the U.S. District Courts, Cincinnati, Ohio (see footnote 15 below) and Frankfort, Kentucky; Cincinnati City Court Docket, May, 1819–Dec., 1821 (Mss, H.P.S.O.); records of John H. Piatt & Co. (privately owned in Cincinnati); evidence in the Piatt case (see footnote 15 below); personal financial records of James Findlay, William Henry Harrison, William Lytle (particularly in the Torrence Papers, H.P.S.O.), William Short, and many others; financial records of certain business partnerships such as the Merino Sheep Company (Isaac Bates Mss, H.P.S.O.) and fragmentary records of others such as the Cincinnati Bell, Brass, and Iron Foundry, accessible through the court records mentioned above; reports of banks and bank letters to the governor of the state (Ethan Allen Brown Mss, Ohio State Library, Columbus); U.S. Department of War, Bureau of Indian Affairs, Letter Books (National Archives) on the work of Indian agents and military contractors.

A distinction should be noted between those who borrowed from the banks and those who invested in them. The former group, which may be identified from the voluminous court records, official notices of suits published in the newspapers, and the M.E.C. Account Books, consisted to a large extent of merchants, with some manufacturers and a few others. The latter, particularly the 79 individually identified stockholders in the Miami Exporting Company and a few others whose ownership is shown by public notice of administrators on the disposition of estates, included many merchants but also a quite considerable proportion of landowners and farmers, mechanics, lawyers, and others.

those areas. By the end of 1823 only one among the five banks flourishing in Cincinnati in the prosperous years preceding 1819 remained in existence, and even it had ceased to function. The corresponding impacts on the total economic life of the West varied from mild to disastrous, and as the banks were a focus of such difficulties, they became a target of attack.

In broad familiar terms, the services performed by the western bankers of the period permitted the economic development of the West to take place more rapidly than occurred in their absence and helped to establish a closer economic relationship with other parts of the nation. Of particular interest for the purposes of the present study, the intimate interrelationship between the functions of the frontier banks and the needs of the local farmers and merchants helps explain why so many of those farmers and merchants added banking to their other occupational activities.

Turning to other aspects of the banking function and role in the community one may propose evaluations in six general areas: religion, kinship, culture, politics, economy, and civic affairs.

Although perhaps half of the adult population of the city were church members, only a few individuals may be identified through their religious affiliations; the bankers form no exception to that situation. It would seem that the largest number were Presbyterian or Episcopalian, and the next largest, though perhaps only half as numerous as either of the first two, were Quakers. In each instance a higher than average proportion of those church groups were bankers. The largest denominational group in the city was the Methodist, but a comparatively low proportion of the bankers seems to have come from that group. One or two of the bankers may have been Baptists and one a Swedenborgian. None seem to have been members of the other religious groups then existing there, Lutheran or Catholic.

The religious affiliations of two groups require special comment. The Episcopalians, comparatively numerous among the bankers, were a new community both in Cincinnati and, generally, in other towns of which it is representative. During 1817 considerable constructive work had been carried on in Ohio for the Episcopal church and a large number of parishes formed. Many of the bankers who appear subsequently as Episcopalians cannot be identified by religious affiliation in earlier years. Some of them certainly had previously had such background; but many of them almost certainly had not. Their attachment to this church may represent a new ecclesiastical interest following their newly developed economic and

The careful management of Tyson and Forbes resulted in progressive economy in operating the S. S. N. Co.'s steamers. To provide a basis of comparison for 1863–66, data are given below on three steamers which worked a full six-month period (the six months ending 31 December) in these four years:

		Gross earnings	Current expenses
		(Six months ending 31 December)	
Shanse	1863	Tls. 46,714	Tls. 37,665
	1864	46,716	33,736
	1865	63,255	33,463
	1866	65,538	36,004
Szechuen	1863	55,155	36,038
	1864	43,935	29,630
	1865	45,675	29,868
	1866	71,623	33,146
Huquong	1863	65,082	53,732
	1864	66,190	46,587
	1865	79,662	48,230

The distinct decline of expenses in relation to gross earnings would confirm a remark of F. B. Forbes made in 1868: "Our working expenses have been reduced to a minimum except in the matter of coal and our engineers are daily finding means of economizing in that article." [31]

In another effort to achieve greater efficiency, Tyson and Forbes effected certain changes in Russell & Co.'s Chinese staff, the members of which acted as freight brokers for the S. S. N. Co. and were the key figures in its distribution system. In early 1865, Chang-yeu-chang, a Chinese merchant known to have engaged in trade between Shanghai and Hankow, was chosen as Russell & Co.'s chief comprador, replacing Ahyute, "the old compradore." On 24 March 1865, when F. B. Forbes was on his way to the United States for a short visit home, Tyson wrote to P. S. Forbes: "We have also made a complete change of our steamer compradore office & none too soon – Frank will tell you all about this when he sees you. It is too long a story to write!" [32] These administrative measures must have helped to foster the S. S. N. Co.'s Chinese business, for it now grew by leaps and bounds. In May, 1866, one of the conclusions reached by F. B. Forbes in an analysis he made of the S. S. N. Co.'s accounts between 1 May 1865 and 30 April 1866, was as follows:[33]

[31] F. B. Forbes to W. M. Clarke, 11 July 1868, F. B. Forbes's Letter Books (family collection, hereafter FBFLB).

[32] Tyson to P. S. Forbes, 24 March 1865, FC.

[33] F. B. Forbes to E. Cunningham, 31 May 1866, FBFLB.

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This literature commonly became primarily an assignment and distribution of blame for the disasters of 1818–23, and that attribute has continued to characterize most of the subsequent writing. Only in the most recent years has an effort been made to turn attention from an apportionment of blame to an assessment of the work that was actually done by the bankers of that period.

[10] The extensive, important, but highly specialized functions of the western banks in the War of 1812 are excluded from consideration. On earlier banking, see footnote 3 above, Daniel Drake, *Natural and Statistical View or Picture of Cincinnati and the Miami Country* (Cincinnati, 1815); John J. Rowe, "Money and Banks in Cincinnati Pre-Civil War," H.P.S.O. *Bulletin*, VI (July, 1948), 74–99.

Uncertainty about the appropriate functions of banks, and the miscellaneous variety of their interests, are shown typically in the earlier years by the Miami Exporting Company, and later by the activities of such other banks as the Dayton Manufacturing Company (Feb., 1814) and the Little Miami Canal and Banking Company (Dec., 1817). Their work seems to have been closely related to that of nonbanking firms such as the (Cincinnati) Union Trading Company (Dec., 1817). On the other hand, many banking functions were performed by other men than bankers. Paper notes were issued by individual merchants (*e.g.*, Benjamin W. Leathers) and by the corporation of Cincinnati, beginning in May, 1817 (Cincinnati Town Records, John Day Caldwell Mss, I, 211 *verso*, H.P.S.O.; annual reports of the town and city treasurer, published in local newspapers).

The notices published by various bank cashiers in the local newspapers calling for partial payments on stock subscriptions show one method by which capital was accumulated, a wide variety of money and farm produce being acceptable in payment. Another method of capital accumulation is evident in the financial records of large-scale owners of western lands such as William Lytle (Lytle Mss, H.P.S.O.), William Short of Philadelphia (Short Family Papers, Library of Congress), and John Cleves Symmes (William Henry Harrison Mss, Library of Congress). The work of merchant-bankers in an exporting partnership is presented in detail in the example of Baum & Perry

supply of local bank notes, an essential "medium of circulation" in a country where specie was scarce and United States notes and United States Bank notes almost unknown; correlative service in the detection of counterfeiting; the financing of the export trade to New Orleans, St. Louis, Natchez, and a wide western market; the financing of eastern imports, both from Europe and from seaboard industrial and commercial centers; the facilitation of public land purchases and payment for them both by individuals to the western receivers of public moneys and by the receivers to the government; the provision of capital for some industrial development and for a large number of commercial enterprises; the concentration of old and accumulation of new capital; the accumulation of profits and payment of dividends therefrom to purchasers of bank stock; and a variety of services rendered directly to the government in connection with military pay and provisioning, tax collection, Indian subsidies, and other matters.[11]

During the years after 1819 the contraction of bank activities, voluntary or involuntary, meant a reduction of services in each of

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(later Baum, Sloo & Co.) which may be followed (1814–17) through newspaper advertisements, the Miami Exporting Company Account Books (M.E.C. Mss, H.P.S.O.), and correspondence of the partners (H.P.S.O. *Quarterly Publications*, IV [July-Sept., 1909], 132–8).

[11] The basic evidence for these services is to be found in the following sources: Miami Exporting Company Account Books, Journal, and Stock Books (M.E.C. Mss, H.P.S.O.); the annual statements of western banks published in local newspapers; *American State Papers*, principally *Finance* Vols. III and IV, *Public Lands* Vol. III, *Miscellaneous* Vol. II, and *Claims*; records of the U.S. District Courts, Cincinnati, Ohio (see footnote 15 below) and Frankfort, Kentucky; Cincinnati City Court Docket, May, 1819–Dec., 1821 (Mss, H.P.S.O.); records of John H. Piatt & Co. (privately owned in Cincinnati); evidence in the Piatt case (see footnote 15 below); personal financial records of James Findlay, William Henry Harrison, William Lytle (particularly in the Torrence Papers, H.P.S.O.), William Short, and many others; financial records of certain business partnerships such as the Merino Sheep Company (Isaac Bates Mss, H.P.S.O.) and fragmentary records of others such as the Cincinnati Bell, Brass, and Iron Foundry, accessible through the court records mentioned above; reports of banks and bank letters to the governor of the state (Ethan Allen Brown Mss, Ohio State Library, Columbus); U.S. Department of War, Bureau of Indian Affairs, Letter Books (National Archives) on the work of Indian agents and military contractors.

A distinction should be noted between those who borrowed from the banks and those who invested in them. The former group, which may be identified from the voluminous court records, official notices of suits published in the newspapers, and the M.E.C. Account Books, consisted to a large extent of merchants, with some manufacturers and a few others. The latter, particularly the 79 individually identified stockholders in the Miami Exporting Company and a few others whose ownership is shown by public notice of administrators on the disposition of estates, included many merchants but also a quite considerable proportion of landowners and farmers, mechanics, lawyers, and others.

those areas. By the end of 1823 only one among the five banks flourishing in Cincinnati in the prosperous years preceding 1819 remained in existence, and even it had ceased to function. The corresponding impacts on the total economic life of the West varied from mild to disastrous, and as the banks were a focus of such difficulties, they became a target of attack.

In broad familiar terms, the services performed by the western bankers of the period permitted the economic development of the West to take place more rapidly than occurred in their absence and helped to establish a closer economic relationship with other parts of the nation. Of particular interest for the purposes of the present study, the intimate interrelationship between the functions of the frontier banks and the needs of the local farmers and merchants helps explain why so many of those farmers and merchants added banking to their other occupational activities.

Turning to other aspects of the banking function and role in the community one may propose evaluations in six general areas: religion, kinship, culture, politics, economy, and civic affairs.

Although perhaps half of the adult population of the city were church members, only a few individuals may be identified through their religious affiliations; the bankers form no exception to that situation. It would seem that the largest number were Presbyterian or Episcopalian, and the next largest, though perhaps only half as numerous as either of the first two, were Quakers. In each instance a higher than average proportion of those church groups were bankers. The largest denominational group in the city was the Methodist, but a comparatively low proportion of the bankers seems to have come from that group. One or two of the bankers may have been Baptists and one a Swedenborgian. None seem to have been members of the other religious groups then existing there, Lutheran or Catholic.

The religious affiliations of two groups require special comment. The Episcopalians, comparatively numerous among the bankers, were a new community both in Cincinnati and, generally, in other towns of which it is representative. During 1817 considerable constructive work had been carried on in Ohio for the Episcopal church and a large number of parishes formed. Many of the bankers who appear subsequently as Episcopalians cannot be identified by religious affiliation in earlier years. Some of them certainly had previously had such background; but many of them almost certainly had not. Their attachment to this church may represent a new ecclesiastical interest following their newly developed economic and

social status. The Quaker bankers, on the other hand, show clearly recognizable connections with Quaker groups in the Philadelphia area and New Jersey. Some of them, or their families, migrated to the western towns by way of intermediate rural settlement in the Redstone Monthly Meeting area in southwestern Pennsylvania and Highland and Clinton counties, in southwestern Ohio. A number of them maintained contact with eastern Quakers, and in a few instances at least there was a continuing process of movement both toward east and west. Nothing, however, seems definitely susceptible of proof in relating their banking activities.[12]

Family orientation toward banking provides a second area of evaluation. A very large proportion of the 88 identified bank directors, at least 39, and possibly 17 more, were related by birth or marriage to others among the group, most of them to more than one other member. In a few instances the relationship was that of brothers, or father and son. In a larger number, it was the relationship of a nephew, son-in-law, or brother-in-law. The conclusion that banking interests centered in family groups is not, however, properly to be drawn. Most of the family relationships had been established before the bank directorships are apparent. Furthermore, the kinship requires evaluation in terms of the general extent of such relationship throughout the business community. In this respect it appears that a very large proportion of merchants in the city were related similarly to one another. The records of family ties, although abundant, are incomplete, so that a statistical comparison would be quite hazardous. But in the relatively small towns of the western country, both Cincinnati and a dozen or more others, it is perhaps not surprising that family connections, both within the banking group and outside of it, should be quite numerous.[13]

[12] The primary sources on religious affiliations include the Wesleyan Society Records (Transcripts), John Day Caldwell Mss (Historical and Philosophical Society of Ohio) and William W. Hinshaw (ed.), *Encyclopedia of American Quaker Genealogy* (6 vols., Ann Arbor, 1936–50), Vols. IV and V. For the general religious situation as well as identification of many names, see Ford, *Cincinnati*, 146–64; Greve, *op. cit.*, I, 481–5; Goss, *op. cit.*, I, 467–97; Leonard, *op. cit.*, II, 400–32. On the Swedenborgians, Ophia D. Smith, "Adam Hurdus and the Swedenborgians in Early Cincinnati," *Ohio Archaeological and Historical Quarterly*, LIII (April-June, 1944), 106–34, and "The Beginnings of the New Jerusalem Church in Ohio," *ibid.*, LXI (July, 1952), 235–61.

[13] Those among whom family kinships have been established are Armstrong, Barr, Baum, I. G. Burnet, J. Burnet, Carneal, Drake, Este, Ferris, Findlay, D. Gano, J. S. Gano, John Gibson, Joshua Gibson, H. Glenn, J. Glenn, Grandin, Harrison, Howell, Hunt, Johnson, J. Keys, J. F. Keys, Longworth, Martin, Oliver, J. Perry, S. Perry, J. H. Piatt, W. Piatt, J. Pugh, L. Pugh, Reeder, Ruffin, Sloo, Southgate, Taylor, Torrence, Wade.

In cultural affairs the bankers do not seem to have taken a leading role, but their presence and support may often be detected in the background. The most prominent leaders and participants in literary, musical, dramatic, and artistic matters were more frequently men in other professions, including the bar – several of whom were of course also bankers.[14]

In political life the bankers appear to have served the local community quite well, frequently undertaking the obligations of local public office. By 1824 half of them – 40 of 80 who were then living in Cincinnati – expressed a public preference for one or another of the presidential candidates, and a number of them took an active part in political organization and campaigning. The largest number, 26, favored Henry Clay; three favored John Quincy Adams, and 11 Andrew Jackson. They stood as candidates for office, and were elected or appointed not only to city and county positions, but to the state legislature, the state supreme court, the governorship of the state, and Congress.

It was perhaps in the commercial and industrial development of the community that the bankers as a group made their largest contributions. Many of them, having accumulated some capital in merchandising, chose to invest it in land; but almost all of the industrial enterprisers of the city were bankers. Available records do not ap-

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Many of the relationships were formed through the earlier pioneer families having large numbers of children, especially the Wallaces, Howells, Ganos, Willises, and Symmeses. Illustrative although not typical were the relationships of John H. Piatt and his first cousin William Piatt (their fathers, Jacob and Daniel, were brothers). J. H. Piatt's sister Hannah married Philip Grandin. J. H. Piatt married Martha Ann Willis, whose mother, Hannah, was a daughter of Silas Howell. Two of Howell's other daughters, Sarah and Susan, married T. D. Carneal and Nicholas Longworth respectively. Lewis Howell was a brother of Hannah, Sarah, and Susan. John Armstrong married Susan Willis, evidently a daughter of Hannah (Howell) Willis and sister of Martha Ann (Willis) Piatt. Nancy Willis, probably of the same family, married W. G. W. Gano, who was evidently of the same family as J. S. Gano. Three daughters of Robert Wallace, Rebecca, Ann and Mary, married Jacob Burnet, Martin Baum and Samuel Perry, all bank directors; a younger daughter, Margaret, married Nehemiah Wade, son of D. E. Wade. Hugh and James Glenn were brothers; an older brother Isaac Glenn, married Elizabeth, a sister of Daniel Drake. Hugh Glenn married Mary Gibson, daughter of Joshua Gibson and sister of John Gibson.

Numerous connections were of course formed in later years; but the extent of intermarriage was so great throughout the entire business community that family combinations did not form a dominating feature. A comparison of family ties with business partnerships, their formation and dissolution, shows an extreme "fluidity" or individualism prior to 1825.

[14] For names of the individual leaders in general cultural life see John J. Rowe, "Cincinnati's Early Cultural and Educational Enterprises," H.P.S.O. *Bulletin*, VIII (July, 1950), 211–16. On scientific leaders, Walter B. Hendrick-

appear to show whether they became bankers before or after their enterprise had led them into industry.

Civic improvement attracted much attention at the time, and the bankers were conspicuous for their contributions to it. The term seems not to have had the narrow meaning to which it has more recently been restricted. The establishment of new industries and the opening of new areas and forms of commerce were regarded as public benefactions. The bankers who risked their own capital — and who in general, it seems, lost a good bit of it — were publicly commended for their enterprise as public-spirited citizens.[15]

Three general features of this group of western bankers may be offered in conclusion. One is the breadth and complexity of their backgrounds, interests, and activities, which were as broad and complex as those of the entire community. The second is the major significance of that diversity in understanding their role: they were much less a special group and perhaps much more a representative group than they have generally been portrayed, and their actions in

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son, "The Western Museum Society of Cincinnati," *Scientific Monthly*, LXIII (1946), 66–72. On literature, Ralph L. Rusk, *The Literature of the Middle Western Frontier* (New York, 1925). On the theater, Rusk, *op. cit.*, and advertisements in the local press; and compare the names of the owners of the Cincinnati Theatre, May, 1819 (Nova Caesarea Harmony Lodge No. 2 [Masonic] Records, John Day Caldwell Mss, I, 448, H.P.S.O.), and at the time of its dissolution (Benjamin Drake and Edward D. Mansfield, *Cincinnati in 1826* [Cincinnati, 1827], 30). On musical life, Harry R. Stevens, "Adventure in Refinement: Early Concert Life in Cincinnati, 1810–1826," H.P.S.O. *Bulletin*, V (Sept., 1947), 8–22, and "Further Adventures in Refinement," *ibid.*, V (Dec., 1947), 22–32; Ophia D. Smith, "Joseph Tosso, the Arkansaw Traveler," *Ohio Archaeological and Historical Quarterly*, LVI (Jan., 1947), 16–45; and Harry R. Stevens, "The Haydn Society of Cincinnati, 1819–1824," *ibid.*, LII (Apr., 1943), 95–119. On painting and other arts as well as those previously mentioned see appropriate chapters in the general histories by Ford, Greve, Goss, and Leonard cited in footnote 1.

[15] On the loss of capital the statistical summary in *Senate Document* No. 98 (12 March 1832), 22 Cong., 1 Sess., pp. 22–36 is impressive but inconclusive. The actual names of many of those who lost property following the panic of 1819 may be found in the Record of Pleas, Circuit Court of the United States, Seventh Circuit, District of Ohio, *Record Book for Terms September 1821-September 1822* and *September 1823-July 1824* (Mss, Recorder's Office, U. S. District Court, Cincinnati, Ohio). There is a graphic account of the general loss in Jacob Burnet, *Notes on the Early Settlement of the North-western Territory* (Cincinnati, 1847), 407–11. Detailed evidence in an individual case may be found in Abraham S. Piatt and others, U. S. Court of Claims, General Jurisdiction Case No. 2205, Record Group 123, National Archives. Microfilm copies of selected portions of the material have been deposited in the Duke Library. From another side, the extensive record of individual transfers of bank stock between 1814 and 1831 are revealing (Miami Exporting Company Stock Book, Mss, Historical and Philosophical Society of Ohio). Records of the Piatt bank are in private hands in Cincinnati.

critical times were based on community-wide origins and participation. As a final feature, the first and second may be restated from the standpoint not of the bankers but of the community: the western community, both in Cincinnati and in many other towns which it represents, provided an environment which demanded and shaped the development of a group of bank enterprisers possessing certain unique though rapidly changing characteristics. The examination of this "large social group of men performing similar roles" suggests not only a greater complexity than is implied in customary allusions to "western bankers" as a group, but the importance of recognizing the elements and nature of the group in order to achieve a better understanding of the entire community. In brief we have a picture of democratic banking in a democratic frontier society.

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Administering a Steam-Navigation Company in China, 1862-1867

Having solved the initial problems of raising capital for its steamship venture on the Yangtze (Business History Review, June, 1954), the Boston trading firm of Russell & Co. then faced operational difficulties of a formidable nature. Fluctuating local trade, recurrent scarcity of working capital, and the presence of an outnumbering fleet of competing vessels provided a severe test of the resident-partner system of administration. Russell & Co.'s Far Eastern affiliate rode out the lean years, profited handsomely in the fat years that followed, and then liquidated its investment. This account of the Yangtze steamship venture further illuminates the methods and policies of American commission houses in the nineteenth-century China trade and has implications of interest to modern managers of foreign investments.

More than ninety years ago, the Chinese Empire conceded to the Western nations the right of trade and navigation between certain ports on the Yangtze River. On this great river was enacted a drama of Western capitalism, the strenuous competition among the no fewer than seven British and American firms which developed the carrying trade by means of steam-driven vessels.

This story of steamboat rivalry in far-off China can be told from the point of view of one firm, the American commission house of Russell & Co., which in 1861–62 founded the Shanghai Steam Navigation Company.[1] The history of this enterprise was sketched by Robert Bennet Forbes as follows: [2]

> The opening of the Yangtze brought on a feverish activity in all pursuits connected with the navigation of the river. . . . Russell & Co.'s [steamers] were the first on the spot, and they organized a company, unincorporated and individually liable, with a capital of [Tls.] 1,000,000, with a share list of

[1] See Kwang-Ching Liu, "Financing a Steam-Navigation Company in China, 1861–62," *Business History Review*, XXVIII (June, 1954), 154–81. I am deeply grateful to Mr. F. Murray Forbes for the privilege of reading the family collection of the papers of the late Mr. Frank Blackwell Forbes.

[2] Robert B. Forbes, *Personal Reminiscences*, 2d ed. rev. (Boston, 1882), p. 366.

foreigners and Chinese, called the Shanghai Steam Navigation Company. In about two years the river trade shrunk to its natural limits, and the number of steamers being by that time much greater than needed, freights fell very low and were scant at that.

One after another they [the steamers] or their owners came to grief. Some were lost, some were sold. Russell & Co. held the best wharf positions and commanded throughout the choice of the Chinese trade, having also a fair share of the foreign freightage, through their English shareholders. They held all they had and took in the slack as their rivals eased up. After four years of an existence between life and death, the Shanghai Steam Navigation Company came out first, bought the rival steamers of their various owners, and established a first class line which flourished for seven or eight years, growing up to a capital of [Tls.] 2,000,000 and a fleet of eighteen steamers.

On the basis of various contemporary records, including letters of Russell & Co.'s partners in Shanghai, it is possible today to reconstruct a fuller story, presenting the problems which confronted the enterprise and the business policies which it adopted.

In this article, our attention will be centered on the period between 1862 and 1867, the crucial years which saw the Shanghai Steam Navigation Company gain ascendancy in the Yangtze steam trade. It was a period of rivalry and of continuous expansion of capital. To a student of transport enterprise in the industrial age, especially the steam-navigation business, this China story should provide valuable material for comparison.

The Initial Years, 1862–63

In an earlier article, "Financing a Steam-Navigation Company in China, 1861–62," it has been described how Edward Cunningham, Russell & Co.'s managing partner in Shanghai, organized the Shanghai Steam Navigation Company with a capital of Tls. 1,000,000 (about $1,358,000), to be invested in five river and three coastal steamers. The success of this initial planning is of great importance, for all through the 1860's no other firm in China was able to raise a capital of similar size for the steam-navigation business in Chinese waters.[3]

[3] A major steam-navigation interest in the Chinese waters in the 1860's was the British transoceanic enterprise, the Peninsular and Oriental Steam Navigation Company. Since the 1840's the P. & O. had entered the local carrying trade in China by running extra steamers without mail contract between Hong Kong, Shanghai, and the intermediate ports. In 1864, the P. & O. scheduled three departures a month from Shanghai, one of which regularly called at Swatow. By 1869, P. & O. departures from Shanghai increased to four each month. (Boyd Cable, *A Hundred Years History of the P. & O., 1837–1937* [London, 1937], chap. 16; *North-China Herald*, Shanghai, hereafter *NCH*,

The splendid opportunity of operating steamers in China—and especially on the Yangtze River—had, however, attracted a large number of firms to the business. By 1864 (when the steamers ordered by the various firms at the time of the first opening of the Yangtze had reached China) more than ten firms had one or more steamers on the river at some time. Of the ten firms, the following seven were considered as "regulars" in the Yangtze carrying trade, having attempted to operate the steamers listed below exclusively on the river.[4]

Dent & Co. (British)	*Fusiyama*, 1,200 tons
Fletcher & Co. (British)	*Moyune*, 1,223
Augustine Heard & Co. (American)	*Fire Dart*, 678; *Kiangloong*, 945
Jardine, Matheson & Co. (British)	*Express*, 290; *Rona*, 1,215
Lindsay & Co. (British)	*Fire Cracker*, 1,040; *Fire Queen*, 1,500
Olyphant & Co. (American)	*Poyang*, 827; *Takiang*, 609; *Kiukiang*, 1,065
Russell & Co. (American)	*Huquong*, 1,339; *Shanse*, 1,006; *Szechuen*, 1,006; *Kiangse*, 1,086; *Chekiang*, 1,264

It can be seen from this table that while Russell & Co.'s five Yangtze steamers faced a total of eleven rival boats, no other firm in the field

1864 and 1869, shipping intelligence tables.) In the 1860's, the senior British firm in China, Jardine, Matheson & Co., still concentrated its steamers on the route between Calcutta, Singapore, and Hong Kong. In 1864, Jardine's operated two steamers on the Yangtze and a small boat between Shanghai and Ningpo; but its two sea steamers made no more than eight trips between Shanghai and Hong Kong. In 1867, Jardine's attempt to set up a regular Shanghai-Hong Kong line lasted only a few months. After 1868, the firm employed one to two steamers in the North China and the Foochow lines; but it was not until 1872–73, when it organized the China Coast Steam Navigation Company with a capital of Tls. 325,000, that Jardine's took up the steam carrying business in China seriously. (Alexander Michie, *The Englishman in China During the Victorian Era* [London, 1900], I, 216–17; *NCH*, 22 Oct. 1874, pp. 399–400.)

[4] *NCH*, 1864. The *Fire Dart* and *Kiangse* were diverted to the Shanghai-Ningpo route in the latter half of 1864; the *Fire Cracker* and *Chekiang* were lost in accidents during the year. The figures shown in this table are for gross tonnage, except in the case of the *Fusiyama* and the *Express*, where the type of measurement is not identified. The tonnage of the *Rona* is according to British measurement. That of the remaining steamers is U. S. registered tonnage (old measure) and is official, except in the case of the *Fire Queen*. Cf. the shipping lists in *NCH*, which give sometimes net and sometimes gross tonnages, the latter according to various rules of measurement. Except for the two steamers of Jardine, Matheson & Co., all the boats in our table are American-built; the *Fusiyama* and the *Kiangloong* were planked in China, but their skeletons and machinery were American. I am very grateful to Professor E. K. Haviland of Johns Hopkins University, author of an article on American steamboats in China soon to be published, for sharing with me the results of his authoritative research.

had control over more than three steamers. Was this initial advantage to lead inevitably to the triumph of Russell & Co. in the competition?

The problem of a working fleet

Partners of Russell & Co. in Shanghai – who were the actual managers of the S. S. N. Co.'s business [5] – had first to solve the question of the effective use of capital equipment. Thanks to Russell & Co.'s early preparatory effort, four of the S. S. N. Co.'s steamers arrived on the scene before the end of 1862 and three more before July, 1863. However, these steamers were actually in operation for very little time for the period up to 30 June 1863, as can be seen in the following statistics:[6]

	Date of beginning of service	Actual time of operation up to 30 June 1863	
		April–Dec., 1862	Jan.–June, 1863
Surprise	April, 1862	8 months	2 months
Pembroke	April, 1862	6.5 "	....
Kiangse	June, 1862	3.5 "	6 months
Huquong	August, 1862	1 "	2 "
Shanse	April, 1863	....	2.5 "
Szechuen	May, 1863	....	....
Chekiang	June, 1863	....	....

The first problem that arose was that of repairs – for, to the dismay of Russell & Co. partners, several of the boats developed defects not long after their arrival, doubtless due to the strain of the ocean voyage from the United States. For instance, the *Pembroke*

[5] Russell & Co., in the role of agents, actually managed and controlled the S. S. N. Co.; see the discussion in Liu, *op. cit.*, 175–79. The officers of the ownership organization (S. S. N. Co.), 1862–66 were as follows. (Italics indicate members of Russell & Co.)

	President	Directors	Auditor
1862	*E. Cunningham*	*H. S. Grew* (*F. B. Forbes, acting*) N. Latimer, F. Loureiro	J. H. Gwyther
1863	*E. Cunningham*	*F. B. Forbes*, N. Latimer J. B. Tootal, T. Vincent	J. H. Gwyther
1864	*G. Tyson*	*F. B. Forbes*, N. Latimer T. Vincent	R. Miller
1865	*G. Tyson*	*F. B. Forbes, H. S. Grew* A. J. How	R. Miller
1866	*G. Tyson*	*F. B. Forbes, H. S. Grew* W. J. Bryans, E. F. Duncanson	R. Miller

[6] All the statistical data in this article concerning the Shanghai Steam Navigation Company, *unless otherwise indicated*, are taken from the reports of the S. S. N. Co.'s Board of Directors (Widener Library).

broke her fan in May and her shaft in June, 1862; the *Kiangse* broke her cylinder head on her first trip on the Yangtze; similarly, the *Szechuen* had to be docked immediately upon arrival for repairs including recaulking. It is known that much of Russell & Co.'s repair work was done at the Shanghai Dock Company, a concern operated by a Portuguese shareholder of the S. S. N. Co., Pédro Loureiro.[7]

A second, more serious problem was the supervision of the S. S. N. Co.'s newly recruited navigation personnel. (Officers of the S. S. N. Co.'s steamers were mostly Americans and included some British; the crews were made up of Chinese and "Manilamen.") The negligence or incompetence of officers led to three major accidents which occurred within an eight-month period: the *Kiangse*'s "fouling" of a vessel in the Shanghai harbor in September, 1862, the *Huquong*'s going aground up the Yangtze in the same week, and the hitting and sinking by the *Huquong* of the S. S. N. Co.'s own *Surprise* in May, 1863. *Huquong*'s Captain Roberts — often referred to in Russell & Co. correspondence as "the wretched Roberts" — was regarded as unquestionably responsible for the two latter accidents.[8]

Referring to the S. S. N. Co.'s history in this period, the Shanghai newspaper *North-China Herald* wrote: "Its misfortunes passed into a proverb, and people half believed that a fatality hung over it. The Chinese declared that its shareholders were suffering from their sacrilege in having built the Kin-lee-yuen [warehouses] on the site of a temple."[9] But Russell & Co. partners soon proved that they could gain control of the problems of repairs and of navigation. For fourteen months after May, 1863, few mishaps were to visit the S. S. N. Co.'s steamers — until bad luck and wear and tear caught up with them.

Competitive policies

In his initial planning for the enterprise, Edward Cunningham decided on a basic policy regarding the use of the S. S. N. Co.'s fleet. At least four or five steamers were to be employed on the Yangtze River as a *line* — constituted by two regular departures at both ends

[7] "Report of the Board of Directors for the General Meeting of the S. S. N. Co." (hereafter "Report"), 10 Feb. and 7 Aug. 1863; *NCH*, 9 Jan. 1864, supplement.

[8] U. S. Congress, *House Miscellaneous Documents*, 45th Cong., 2d Sess., No. 31 (Washington, D. C., 1878), part 2, pp. 219–20 and 867; "Report," 10 Feb. 1863; George Farley Heard to Albert Farley Heard, 5 May 1863, Heard Collection (Baker Library, hereafter HC), HM-19; Warren Delano, Jr., to Paul Sieman Forbes, 19 Aug. 1864 and George Tyson to P. S. Forbes, 19 June 1865, Forbes Collection (Baker Library, hereafter FC).

[9] *NCH*, 16 March 1869, 134.

of the 600-mile route, Shanghai and Hankow (and at the two intermediate ports, Chinkiang and Kiukiang). As Russell & Co. advertised in the Shanghai papers in July, 1862: [10]

> The Shanghai Steam Navigation Company will henceforth dispatch a steamer for the river ports every Tuesday and Friday morning, on the making of the flood tide, without fail, unless prevented by disabling accidents.
>
> The succeeding steamer will be ready to receive a cargo before the clearing of the steamer under dispatch, and merchandise can therefore be shipped on any day at current rates.
>
> Returning — a steamer will leave Hankow every Wednesday and Saturday morning.

Because of the disabled state of the S. S. N. Co.'s fleet described above, this schedule was not put into practice until after June, 1863.

Unfortunately for the S. S. N. Co., however, the situation in the freight market had by then changed. The Yangtze proved to be, after all, not the Mississippi, and the development of trade on the river in the few years after its opening was disappointing.[11] In the four years 1861–64, trade on the river (indicated by the total value of imports and exports of Hankow as recorded by the Inspectorate General of Customs) had grown less than three times. However, in the same period, the amount of tonnage on the river (indicated by the total tonnage of vessels entering and departing from Hankow, also as recorded by the Inspectorate) had increased about five times.[12] These conditions resulted in a steep decline in freight

[10] *NCH*, 12 July 1862, 110.

[11] The principal *items of trade* on the Yangtze River, as indicated in the imports and exports of Hankow in the year 1865, were (in the order of their value) as follows: *imports* — woolen goods, cotton piece goods, opium, copper cash, silk piece goods, sugar, seaweed, pepper, and cuttlefish; *exports* — tea, wood oil, tobacco, vegetable tallow, raw silk, hemp, beeswax, paper, timber, and cotton. *Passenger traffic* was of relatively small significance to the Yangtze steamers in this period. The total number of steamer passengers arriving and leaving Hankow in 1865 — not counting those who paid their fare on board — was given as follows: *arriving Hankow*, 6,692; *leaving Hankow*, 5,551. (Imperial Maritime Customs, *Reports on Trade at the Treaty Ports*, 1865 [Shanghai, 1866], pp. 40, 99, and 105.)

[12] The following statistics were taken from *Reports on Trade*, 1864 (Shanghai, 1865) and *ibid.*, 1865:

	Total value of imports and exports of Hankow	Vessels entered and departed	
		Number	Tonnage
1861 (8 months)	Tls. 9,779,909	401	93,433
1862	12,046,009	1,462	290,536
1863	27,333,595	1,033	395,312
1864	25,517,183	793	417,855

Since only vessels under a foreign flag are under the purview of the Inspectorate General of Customs, these figures do not take account of Chinese vessels *not*

rates — as seen in the following annual averages of steamer freight rates between Shanghai and Hankow, on the basis of per ton measurement of 40 cubic feet: [13]

Date	Up (Shanghai to Hankow)	Down (Hankow to Shanghai)
1861	Tls. 10.50	Tls. 20.00
1862	8.00	7.50
1863	4.80	3.50
1864	5.00	2.40

What was the freight-rate policy adopted by Russell & Co. partners? In the period between June and December, 1863, it is known that it was the S. S. N. Co. which took the initiative in lowering freight rates. Because of the lack of direct Russell & Co. sources for these months, it is difficult to determine the precise motive behind the policy — whether it was to seek maximum profit, or whether it was primarily intended to drive the other firms from the field. It was, however, the definite impression of these rival firms that Russell & Co. emphasized the latter objective. As early as 24 June 1863, we find C. D. Williams, Augustine Heard & Co.'s agent at Hankow, reporting: [14]

Steaming is now coming down to a hard competition between this & Shanghai, & either the S. S. N. Co'y must try for a living, or try to run off all the regular (as well as outside) houses, like Kinkee [Chinese name of Heard &

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under a foreign flag. However, because native shipping on the Yangtze had been harassed by the Taiping rebels, who occupied Nanking between 1853 and 1864, many Chinese owners of junks and lorchas operated under the protection of foreign registry. (See *ibid.*, 1864, Hankow, 8; *ibid.*, 1865, 40–41.) The following are available statistics on the relative proportion of sail and steam — *sail* consisting of junks and lorchas under foreign flags as well as a few Western sailing ships which cleared directly from Hankow to England. (Imperial Maritime Customs, *Statistics of Trade at the Port of Hankow*, 1863–1872 [Shanghai, 1873], p. 5.)

1864

	Sail		Steam	
	Number	Tonnage	Number	Tonnage
Entered	56	9,334	229	194,275
Cleared	277	15,852	231	198,394

1866

	Sail		Steam	
	Number	Tonnage	Number	Tonnage
Entered	32	11,197	231	176,696
Cleared	42	11,572	231	176,696

[13] Imperial Maritime Customs, *Reports on Trade*, 1864, Hankow, 11.

[14] C. D. Williams to A. F. Heard, 24 June 1863, HC, HM–52.

Co.], D. & Co., J. M. & Co., O. & Co. and look for some future good when the deluge leave [sic] them alone in the field.

In November, 1862, the freight rate from Hankow to Shanghai came down to Tls. 2 per ton.[15] In January, Albert Heard, Augustine Heard & Co.'s head partner in China, wrote to his brothers in the United States: [16]

They [the S. S. N. Co.] are very unpopular with all other owners of steamers, & the onus of the low rates is with singular unanimity placed on their shoulders, as they are held to have attempted a cut-throat competition.

Now, it is clear that in this situation the S. S. N. Co. – with its five Yangtze steamers all running – had the advantage over the other firms, if only in the matter of economy. In the six months ending 31 December 1863, under the very low rates, the S. S. N. Co.'s Yangtze steamers still operated with profit, as may be seen from the following summary of accounts of individual steamers in these six months:

	Gross earnings	Current expenses	Repairs and alterations	Net earnings
Huquong	Tls. 65,082	Tls. 53,732	Tls. 2,348	Tls. 9,002
Kiangse	52,922	34,893	2,459	15,569
Chekiang (4½ months)	45,494	33,869	1,011	10,613
Shanse	46,714	37,665	2,824	6,224
Szechuen	55,155	36,038	14,691	4,424

The difficulties of the rival steamers are suggested by the experience of Augustine Heard & Co., which in the latter half of 1863 had only one steamer on the Yangtze – the *Fire Dart*. In the six months ending 30 November 1863, the gross earnings of the *Fire Dart* were Tls. 46,000, but her current expenses were as high as Tls. 60,000. Albert Heard explained this deficit as follows: [17]

One boat bearing the expenses of an establishment intended for six — No wonder she loses money! . . . Her expenses may be reduced by my cutting down the charges to which she has been subjected for a body of pilots, for engineers, wharfage &c. As far as we are concerned it is all the same, but it swells the amount of her disbursements.

The S. S. N. Co.'s competitive policy was not confined to lowering freight rates. In the latter half of 1863, Russell & Co. also pushed forward a vigorous sales promotion program, designed particularly

[15] A. F. Heard to John Heard, 3rd, and Augustine Heard, Jr., 24 Nov. 1863, HC, FM-4.

[16] *Ibid.*, 18 Jan. 1864, HC, FM-4.

[17] *Ibid.*, 7 Dec. 1863, HC, FM-4.

to foster Chinese business. Among the measures adopted were free storage and docking service for cargoes on the S. S. N. Co.'s steamers, and a "cash return" to the shipper (or his agents) of 1 per cent upon the freights paid. As part of the firm's banking activity, Russell & Co. offered to the S. S. N. Co.'s shippers liberal advances for trading purposes. The rival firms in the field found it necessary to imitate many of these measures. H. G. Bridges, Heard & Co.'s agent at Kiukiang, wrote in a letter dated 15 October 1863: [18]

> They [Russell & Co.] have led all the way in all sorts of concessions & facilities for Chinese shippers which I have been obliged to follow as soon as I have discovered them, not only to get cargo for the house steamers but also to prevent Russell & Co. from getting everything into their own hands.

Financial limitations of the S. S. *N. Co.*

However, Russell & Co. was not able to keep up its competitive policy at this pace for long. The S. S. N. Co.'s own capital strength was limited, and it could not stand the shock of unforeseen financial problems.

Like many early industrial entrepreneurs, Russell & Co.'s partners allocated almost the entire resources of the S. S. N. Co. to capital equipment – doubtless anticipating that the enterprise would provide for its other needs as it went along. As of 30 June 1863, Tls. 715,407 of the original capital of 1,000,000 was invested in steamers, and Tls. 198,859 in waterfront real estate – making in all a capital investment of Tls. 914,266. In the latter part of 1862, Russell & Co. also planned for the S. S. N. Co. a machine shop to meet the needs of steamer repairs.

Up to June, 1863, the S. S. N. Co. realized very little net profit: Tls. 33,107 for the eight months ending 31 December 1862, and Tls. 23,209 for the six months ending 30 June 1863. In the six months ending 31 December 1863, despite very low freight rates, the S. S. N. Co.'s Yangtze line realized a net profit of Tls. 45,832 – which, together with the earnings of the warehouses and of the coastal steamers, made a total net profit of Tls. 63,978.[19] Could the enterprise continue on this basis until its competitive policy on the Yangtze produced results?

Unfortunately, it was at this juncture that the insufficiency of the S. S. N. Co.'s original capital became apparent. In the latter half

[18] H. G. Bridges to George B. Dixwell, 15 Oct. 1863, HC, EM-13.

[19] A table showing the net profits of the various accounts of the S. S. N. Co., 1863–66, is given in the Appendix.

of 1863, Russell & Co. partners found to their dismay that the machine shop (which was housed in a building 200 feet long, near the Honque wharves) would cost a total of Tls. 100,000.[20] Moreover, another large unexpected expenditure became necessary in December, 1863. In that month, Paul Sieman Forbes, Russell & Co.'s "head of the house," who had charge of the procurement of the S. S. N. Co.'s steamers in New York, arrived in China for a short visit, bringing with him the final bill for the S. S. N. Co.'s seven steamers (including the *Fohkien* but not the *Surprise*). This bill listed extra charges amounting to Tls. 41,793 – mainly for repairs and other expenses incurred while the steamers were being fitted out or while they were en route to China.[21] Thus, as of January, 1864, the S. S. N. Co.'s total capital outlay – including that for the machine shop – amounted to Tls. 1,056,000, to which must be added a sum of Tls. 60,000 representing miscellaneous assets including the current stock of coal. The S. S. N. Co. now found itself in debt to Russell & Co., which advanced the funds for its disbursements, for an amount given at Tls. 103,898.

Since no abatement of the competition on the Yangtze was in sight, the extent of this indebtedness was serious. Russell & Co. partners indeed had to change their policy, and propose to the other firms in the field an agreement on a higher level of freight rates. As Albert Heard reported to a partner in a letter dated 6 January 1864: [22]

> He [Cunningham] finds I have no doubt that the [S. S. N.] Comp'y is a very heavy load to carry & is doing all he can to ease his shoulders. . . . In fact, he or R. & Co. are being pushed, I feel sure, & the shareholders don't see the fun of steady & constant loss. . . .
>
> Cunningham is very desirous of getting up freights on the Yangtze & of course everybody has the same desire, but every one lays the blame of the low rates on him & on the S. S. N. Co., & consequently are not sorry to see him urging a contrary policy to what he formerly advocated.

As planned some time earlier, Cunningham was to return to the

[20] "Report," 18 Jan. 1864, states: "It [the machine shop] has proved to be much more extensive than was anticipated by the Agents [Russell & Co.], and consequently more costly, but the machinery having arrived and the building completed before this became apparent to them, it has been impossible to keep the original intention."

[21] The figure Tls. 41,793 already took account of the earnings of the *Chekiang* while being chartered by the U. S. government at home before it came to China. According to Albert Heard's information, the total amount of the bill brought by P. S. Forbes was Tls. 80,000. "The bill of Tls. 80,000 was brought by Forbes & has taken the unsuspecting shareholders completely by surprise." (A. F. Heard to J. Heard and A. Heard, Jr., 18 Jan. 1864, HC, FM–5.)

[22] A. F. Heard to E. F. Parker, 6 Jan. 1864, HC, HL–23.

United States for the next term of Russell & Co.'s partnership (1864–66). Beginning in January, 1864, responsibility for the S. S. N. Co.'s business fell on the shoulders of two younger partners whom Cunningham had helped to train: George Tyson (1832–81), now managing partner in Shanghai, and Frank Blackwell Forbes (1839–1908), Russell & Co.'s partner in Shanghai in particular charge of steamer business.[23]

The Crucial Years, 1864–66

In 1864, the S. S. N. Co.'s five Yangtze steamers – which number was reduced to four in August when the *Chekiang* was burned in an accident – faced the competition of a total of ten or eleven rival boats. George Tyson and F. B. Forbes could still rely on the advantage of a relatively large unit, but they had to work under a financial burden. The Yangtze freight market continued depressed, and the "winding up" of the S. S. N. Co. was rumored several times during the year.[24]

It was now the turn of the S. S. N. Co.'s rivals to try to "stifle" the S. S. N. Co. itself. The British firm Dent & Co., which was ambitious to expand its Yangtze steamer business, took over the lead in lowering rates. (In January, 1864, the rate from Hankow to Shanghai was Tls. 2.5; in July, it was Tls. 2.0.)[25] On 22 May 1864, George Dixwell, Augustine Heard & Co.'s partner in Shanghai, reported: "I have heard outside that Dents have declared their readiness to take the freights on the *Fusiyama* at one tael per ton. Can they be meaning to ruin the S. S. N. Co and then buy their boats?"[26]

Tribute should be paid to Russell & Co.'s young partners for

[23] Tyson came from a shipping family of New Bedford, Mass. He was clerk of Russell & Co. in China, 1851–54, and partner after 1855. On his later career as a railroad administrator in the United States, see Thomas C. Cochran, *Railroad Leaders, 1845–1890* (Cambridge, Mass., 1953), p. 473. F. B. Forbes was the son of the Rev. John Murray Forbes, dean of General Theological Seminary, New York. He went to China in 1857 as secretary to the United States envoy, William B. Reed, and was persuaded by his uncle, P. S. Forbes, to remain with Russell & Co., taking charge of its business at Tientsin at the age of 22. In 1862, in Shanghai, he served as director of the S. S. N. Co. and was admitted partner of Russell & Co. in 1863. (Various references in FC.)

[24] A. F. Heard to J. Heard and A. Heard, Jr., 3 Sept. 1864, HC, FM–5.

[25] *Ibid.*, 7 Jan. 1864, HC, FM–5; Tyson to P. S. Forbes, 20 July 1864, FC.

[26] G. B. Dixwell to A. F. Heard, 22 May 1864, HC, HM–30. Dixwell himself considered reducing the *Kiangloong*'s passenger fare. He wrote in the same letter: "How would it do to run her here merely as a passenger boat — putting the passage money down to 7, 6, 5, or 4 taels and aiming to carry hosts of the great unwashed? doing for the passenger traffic what Dent & Co. are doing for cargo — id est — ruining everybody?"

working valiantly to save the S. S. N. Co. Following now a policy of "drawing in the horns all round," they succeeded in selling the machine shop to an enterprise in Japan for a "good price." [27] Careful management of the business resulted in the S. S. N. Co.'s net profit of Tls. 72,030 in the six months ending 30 June 1864, and Tls. 41,612 in the six months ending 31 December 1864, at which time the S. S. N. Co.'s entire debt was declared to be cleared. Commenting on the S. S. N. Co.'s position, Albert Heard wrote in September, 1864: "I suppose the sale of the machine shop is what got them out of debt . . . . Still they are better off than I supposed & have certainly managed well to get along as they have." [28]

By the end of 1864, the other firms in the field also saw the folly of the rate war. When, on 10 December 1864, George Tyson invited them to meet at Russell & Co. to discuss a freight-rate agreement for the Yangtze, they readily assented. The agreement, acceded to by all the principal firms before the end of the year, provided for the following minimum rates: *in the winter*, Tls. 6 per ton from Shanghai to Hankow and Tls. 4 per ton from Hankow to Shanghai; *in the remainder of the year*, Tls. 5 from Shanghai to Hankow and Tls. 3 from Hankow to Shanghai. This agreement was to be effective for one year, but in December, 1865, it was renewed for another twelve months.[29]

Emphasis on managerial efficiency

The basic success of George Tyson and F. B. Forbes was in management — for, under the difficult business conditions of 1864–65, they were compelled to work for maximum efficiency. Even after January, 1865, when the freight rates were raised, it was still not easy for the Yangtze steamers to make any profit. George Tyson wrote P. S. Forbes on 24 March 1865, when he sent to the latter the S. S. N. Co. accounts for the last six months of 1864:[30]

> You will see that the company has been making money in spite of low freights and competition: the company is now entirely free from debt & is steadily tho very moderately making money. We can't expect anything better than this — close careful watching over expenses & over earnings are absolutely necessary to keep the business on the profit side of the account & we must hold on with this for better times.

[27] A. F. Heard to J. Heard and A. Heard, Jr., 18 Jan. 1864, HC, FM–5; "Report," 10 Aug. 1864.

[28] A. F. Heard to J. Heard and A. Heard, Jr., 15 Sept. 1864, HC, FM–5.

[29] Dixwell's diary, 12 and 13 Dec. 1864; Dixwell to A. F. Heard, 19 Dec. 1865, HC, HM–30; Imperial Maritime Customs, *Reports on Trade*, 1864, Hankow, 11.

[30] Tyson to P. S. Forbes, 24 March 1865, FC.

The careful management of Tyson and Forbes resulted in progressive economy in operating the S. S. N. Co.'s steamers. To provide a basis of comparison for 1863–66, data are given below on three steamers which worked a full six-month period (the six months ending 31 December) in these four years:

		Gross earnings	Current expenses
		(Six months ending 31 December)	
Shanse	1863	Tls. 46,714	Tls. 37,665
	1864	46,716	33,736
	1865	63,255	33,463
	1866	65,538	36,004
Szechuen	1863	55,155	36,038
	1864	43,935	29,630
	1865	45,675	29,868
	1866	71,623	33,146
Huquong	1863	65,082	53,732
	1864	66,190	46,587
	1865	79,662	48,230

The distinct decline of expenses in relation to gross earnings would confirm a remark of F. B. Forbes made in 1868: "Our working expenses have been reduced to a minimum except in the matter of coal and our engineers are daily finding means of economizing in that article." [31]

In another effort to achieve greater efficiency, Tyson and Forbes effected certain changes in Russell & Co.'s Chinese staff, the members of which acted as freight brokers for the S. S. N. Co. and were the key figures in its distribution system. In early 1865, Chang-yeu-chang, a Chinese merchant known to have engaged in trade between Shanghai and Hankow, was chosen as Russell & Co.'s chief comprador, replacing Ahyute, "the old compradore." On 24 March 1865, when F. B. Forbes was on his way to the United States for a short visit home, Tyson wrote to P. S. Forbes: "We have also made a complete change of our steamer compradore office & none too soon — Frank will tell you all about this when he sees you. It is too long a story to write!" [32] These administrative measures must have helped to foster the S. S. N. Co.'s Chinese business, for it now grew by leaps and bounds. In May, 1866, one of the conclusions reached by F. B. Forbes in an analysis he made of the S. S. N. Co.'s accounts between 1 May 1865 and 30 April 1866, was as follows:[33]

[31] F. B. Forbes to W. M. Clarke, 11 July 1868, F. B. Forbes's Letter Books (family collection, hereafter FBFLB).

[32] Tyson to P. S. Forbes, 24 March 1865, FC.

[33] F. B. Forbes to E. Cunningham, 31 May 1866, FBFLB.

We can afford now to let our neighbors tout among the foreigners for their river business, and content ourselves with keeping quiet and taking what our advantages might inevitably bring as our share — for we now find that our Chinese constituency more than pays the expenses of the line, and that to *their* increasing traffic our great profits will be due. . . .

The problem of adjusting capacity to demand

The prospect of increased traffic, however, introduced a new managerial problem – that of the replenishment and expansion of the company's fleet. The timing of new purchases, and their financing, required entrepreneurial planning of a high order.

Throughout 1864, the question had not arisen, for the Yangtze freight market was then very depressed and the S. S. N. Co.'s tonnage was more than sufficient. In July, 1864, Tyson wrote P. S. Forbes that "the freights on the river are lower again, 2 taels, and not much moving." [34] In the same month, it was decided to move the *Kiangse* to the coastal route between Ningpo and Shanghai (where in the remainder of the year, the boat was to realize a net profit of only Tls. 6,183). In August, 1864, when the *Chekiang* was burned in an accident and the S. S. N. Co.'s Yangtze fleet was reduced to only three boats, Tyson and Forbes did not attempt to bring the *Kiangse* back to the Yangtze. (Explaining the small earnings of the river line in the last six months of 1864, the S. S. N. Co.'s directors wrote: "This is owing chiefly to the very dull state of trade and the consequent diminution of traffic on the River during the last half of the year." [35])

By March, 1865, however, the situation had altered. While the volume of trade on the river seems to have changed but little, steam traffic had grown at the expense of sail (i.e., the junks and lorchas which many native merchants still employed).[36] Tyson ascribed the new tendency to the low steamer freight rates in 1864, which had induced a large number of Chinese merchants to try steamers

[34] Tyson to P. S. Forbes, 20 July 1864, FC.

[35] "Report," 22 March 1865.

[36] The trade and tonnage figures of Hankow, 1865–66, are as follows (Imperial Maritime Customs, *Statistics of Trade at Hankow, 1863–1872*, 5–6):

	Total value of imports and exports of Hankow	Vessels entered and cleared	
		Number	Tonnage
1865	Tls. 22,139,064	665	429,482
1866	27,695,485	536	376,161

However, the tonnage for sail declined further in 1865 — as the Commissioner of Customs at Hankow put it — "owing to the average rate of freight by steamers having been very moderate." (Imperial Maritime Customs, *Reports on*

and to stick to them even after the rates were raised in January, 1865. On 24 March 1865, Tyson wrote P. S. Forbes that he hoped to purchase for the S. S. N. Co. Augustine Heard & Co.'s Canton steamer *Kinshan*. He explained:[37]

> If we can buy the *Kinshan*, we will at once be able to make the river business more profitable than ever before, as the low fares have developed a large traffic, of which a good proportion will continue at higher rates.

In June, 1865, when Fletcher & Co. decided to withdraw from the field and offered the *Moyune* for sale at auction, the S. S. N. Co.'s directors decided immediately to bid for her, "feeling convinced of the urgent necessity of adding another steamer to the Company's fleet."[38]

A further change in the market situation took place towards the end of the year, as a result of the withdrawal of two steamers from the Yangtze River — the *Kiukiang* and *Poyang*, both owned by Olyphant & Co. In December, when Lindsay & Co. offered its *Fire Queen* for sale, Tyson and Forbes decided to get her. As they stated in the directors' reports of February, 1866, this purchase was prompted by the new market situation, plus the fact that one of the company's old steamers was found to be not well-adapted to the Yangtze trade, and all were in want of important repairs:

> Towards the close of the year the steamer *Fire Queen* was offered in the market for sale; meanwhile the steamers *Kiukiang* and *Poyang* had been withdrawn from the River. In view of the altered position of the River traffic resulting from these changes, as well as for other reasons, it appeared to the Directors that a proper regard for the best interests of the Company made it imperative that the *Fire Queen* should be purchased for the Company. . . . The other reasons for purchasing the steamer, alluded to above, are that the *Szechuen* has not proved well adapted to the requirements of the Company's service as a River boat, and that the substitution of a more suitable steamer was urgently needed, and further that the steamers *Huquong*, *Kiangse* and *Szechuen* were all in want of extensive repairs and alterations. . . .

The plowing-back process

The problem here was one of financing — how was the S. S. N. Co.

Trade, 1865, 40–41.) The Commissioner cited the following statistics of sail tonnage in 1864–65:

	Cleared in 1864		Cleared in 1865	
	Number	Tons	Number	Tons
Lorchas	53	7,585	28	3,154
Junks	125	7,735	103	6,875

[37] Tyson to P. S. Forbes, 24 March 1865, FC.
[38] "Report," 23 Feb. 1866.

to find the means to purchase the additional steamers? The *Moyune* and the *Fire Queen* would cost a total of Tls. 214,500. Before the end of 1865, the S. S. N. Co. also contracted for the repairs of its old steamers, involving a further outlay of Tls. 30,000.

Could the commission house Russell & Co. advance the funds, as it did in 1863 for the machine shop project? Under the high interest rates prevailing in China (more than 1 per cent per month at this time in Shanghai),[39] long-term indebtedness was to be avoided. Moreover, Russell & Co. itself was at this time very short of funds — partly because of the depressed state of the China trade in the year 1865. In June, 1865, when the final accounts of the firm for the year 1863 were made up, Tyson wrote to P. S. Forbes:[40]

> There was no division for 1863 & on the contrary there will be a heavy loss coming to 1862. . . . I would have sent you the Tls. 12,000 & would do it now if we could spare it, but in times like these with so much want of confidence & so many failures we must keep as much in hand as possible & we really cannot spare it now.

Fortunately for the S. S. N. Co., the *Moyune* was obtainable at a low price — Tls. 74,500 — just within the S. S. N. Co.'s own means. On 19 June 1865, George Dixwell of Heard & Co. remarked in a letter to Albert Heard: "I cannot imagine where R. & Co. can get the money to buy the *Moyune*, or to think of buying her." [41] But from the S. S. N. Co.'s accounts, we know that as of 30 June 1865 the company had at its disposal cash assets amounting to Tls. 72,590. (The capital account of 31 December 1864 lists Tls. 47,030 under "reserve and profits"; the net profit of the six months ending 30 June 1865 was Tls. 25,560.)

The purchase of the *Moyune* was of crucial importance, for it started a continuous plowing-back process. As we shall see below (page 187), the addition of the *Moyune* made possible the

[39] It is known, for instance, that in July, 1864, the Shanghai house of Russell & Co. borrowed a sum of Tls. 25,000 at 1 per cent a month. (Tyson to P. S. Forbes, 20 July 1864, FC.)

[40] Tyson to P. S. Forbes, 19 June 1865, FC. It seems that in the month following the date of this letter, Tyson did make some remittance to P. S. Forbes in New York to meet part of the cost of two new steamers — the *Oriflamme* and the *Plymouth Rock* — both of them largely P. S. Forbes' personal ventures, built to be sold in China or Japan. On 19 July 1865, Tyson wrote Forbes: "The advance on the *Oriflamme* for your share in her & the unexpectedly heavy remittance we have been obliged to make for the *Plymouth Rock* have taxed all our energies and compelled us to use our credit & borrow money besides. We must clear ourselves from this position first of all. I have not to borrow money here but they have been compelled to do so in Hong Kong." (FC.)

[41] Dixwell to A. F. Heard, 19 June 1865, HC, HM-30.

S. S. N. Co.'s large net profit in the six months ending 31 December 1865: Tls. 109,284. This, in turn, made possible the purchase of the *Fire Queen*, priced at Tls. 140,000.

In the last six months of 1865, the S. S. N. Co. benefited for the first time from the underwriter's service. Because of high premiums, the S. S. N. Co. did not insure its Yangtze steamers before 1866 but had always insured its two coastal steamers, *Pembroke* and *Fohkien*. In July, 1865, the *Fohkien* was lost by stranding. The indemnity received from a London insurance firm – about Tls. 90,956 – was applied to the purchase of the *Fire Queen* and to the repairs of steamers on the Yangtze line.[42]

While Russell & Co. partners were thus able to reinvest the enterprise's profits up to this time entirely in capital equipment, the S. S. N. Co.'s shareholders had to forego for the fourth straight year the satisfaction of a dividend. In the directors' report of the S. S. N. Co. dated 23 February 1866, Tyson and Forbes appealed to the shareholders to take a long-term view of their investment:[43]

> It will be seen the purchase of the steamers *Moyune* and *Fire Queen* and the outlay required for repairs as above stated, absorb all the funds arising from profits on the business of the Company for the year, and the proceeds of the Insurance on *Fohkien*. There are consequently no means for a dividend, but the Directors feel confident that the shareholders will consider that the greatly improved position secured to the business of the Company, and the increase in value of the Company's stock by the acquisition of the two valuable steamers *Moyune* and *Fire Queen*, is at this juncture of greater importance to the permanent interests of the Company than the payment of a dividend which would have absorbed a portion of the funds needed for their purchase.

The fact that Tyson and Forbes enjoyed the co-operation of the shareholders again testifies to their quality as entrepreneurs. On Tyson's contribution, F. B. Forbes wrote the following in November, 1866: "In his management of the S. S. N. Co., I don't think anyone could have shown more wisdom, tact and discretion in the embarrassing circumstances and delicate negotiations that have occurred.

[42] "Minutes of a General Meeting of the S. S. N. Co.," 3 Oct. 1864; 23 Feb. 1866; 18 Feb. 1867; "Report," 23 Feb. 1866.

[43] The value of the S. S. N. Co.'s shares (Tls. 1,000 at par) is known to have fallen to Tls. 750 in November, 1863, and Tls. 600 in January, 1864. (A. F. Heard to J. Heard and A. Heard, Jr., 24 Nov. 1863 and 18 Jan. 1864, HC, FM-5.) In November, 1865, the current value of the stock in Shanghai was about Tls. 500, but buyers had increased. On 30 November, Henry Roundy wrote Albert Heard: "They [Russell & Co.] are doing so well that the S. S. N. Co.'s shares are going up, and some of my Chinese acquaintances who tried very hard to get something like a price for their shares last year (at this date) will not sell now at less than 500. Gibb, Livingstons bought recently quite a number of shares from Chinese and others." (HC, HM-58.)

to find the means to purchase the additional steamers? The *Moyune* and the *Fire Queen* would cost a total of Tls. 214,500. Before the end of 1865, the S. S. N. Co. also contracted for the repairs of its old steamers, involving a further outlay of Tls. 30,000.

Could the commission house Russell & Co. advance the funds, as it did in 1863 for the machine shop project? Under the high interest rates prevailing in China (more than 1 per cent per month at this time in Shanghai),[39] long-term indebtedness was to be avoided. Moreover, Russell & Co. itself was at this time very short of funds – partly because of the depressed state of the China trade in the year 1865. In June, 1865, when the final accounts of the firm for the year 1863 were made up, Tyson wrote to P. S. Forbes:[40]

> There was no division for 1863 & on the contrary there will be a heavy loss coming to 1862. . . . I would have sent you the Tls. 12,000 & would do it now if we could spare it, but in times like these with so much want of confidence & so many failures we must keep as much in hand as possible & we really cannot spare it now.

Fortunately for the S. S. N. Co., the *Moyune* was obtainable at a low price – Tls. 74,500 – just within the S. S. N. Co.'s own means. On 19 June 1865, George Dixwell of Heard & Co. remarked in a letter to Albert Heard: "I cannot imagine where R. & Co. can get the money to buy the *Moyune*, or to think of buying her."[41] But from the S. S. N. Co.'s accounts, we know that as of 30 June 1865 the company had at its disposal cash assets amounting to Tls. 72,590. (The capital account of 31 December 1864 lists Tls. 47,030 under "reserve and profits"; the net profit of the six months ending 30 June 1865 was Tls. 25,560.)

The purchase of the *Moyune* was of crucial importance, for it started a continuous plowing-back process. As we shall see below (page 187), the addition of the *Moyune* made possible the

[39] It is known, for instance, that in July, 1864, the Shanghai house of Russell & Co. borrowed a sum of Tls. 25,000 at 1 per cent a month. (Tyson to P. S. Forbes, 20 July 1864, FC.)

[40] Tyson to P. S. Forbes, 19 June 1865, FC. It seems that in the month following the date of this letter, Tyson did make some remittance to P. S. Forbes in New York to meet part of the cost of two new steamers — the *Oriflamme* and the *Plymouth Rock* — both of them largely P. S. Forbes' personal ventures, built to be sold in China or Japan. On 19 July 1865, Tyson wrote Forbes: "The advance on the *Oriflamme* for your share in her & the unexpectedly heavy remittance we have been obliged to make for the *Plymouth Rock* have taxed all our energies and compelled us to use our credit & borrow money besides. We must clear ourselves from this position first of all. I have not to borrow money here but they have been compelled to do so in Hong Kong." (FC.)

[41] Dixwell to A. F. Heard, 19 June 1865, HC, HM-30.

S. S. N. Co.'s large net profit in the six months ending 31 December 1865: Tls. 109,284. This, in turn, made possible the purchase of the *Fire Queen*, priced at Tls. 140,000.

In the last six months of 1865, the S. S. N. Co. benefited for the first time from the underwriter's service. Because of high premiums, the S. S. N. Co. did not insure its Yangtze steamers before 1866 but had always insured its two coastal steamers, *Pembroke* and *Fohkien*. In July, 1865, the *Fohkien* was lost by stranding. The indemnity received from a London insurance firm – about Tls. 90,956 – was applied to the purchase of the *Fire Queen* and to the repairs of steamers on the Yangtze line.[42]

While Russell & Co. partners were thus able to reinvest the enterprise's profits up to this time entirely in capital equipment, the S. S. N. Co.'s shareholders had to forego for the fourth straight year the satisfaction of a dividend. In the directors' report of the S. S. N. Co. dated 23 February 1866, Tyson and Forbes appealed to the shareholders to take a long-term view of their investment:[43]

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[42] "Minutes of a General Meeting of the S. S. N. Co.," 3 Oct. 1864; 23 Feb. 1866; 18 Feb. 1867; "Report," 23 Feb. 1866.

[43] The value of the S. S. N. Co.'s shares (Tls. 1,000 at par) is known to have fallen to Tls. 750 in November, 1863, and Tls. 600 in January, 1864. (A. F. Heard to J. Heard and A. Heard, Jr., 24 Nov. 1863 and 18 Jan. 1864, HC, FM–5.) In November, 1865, the current value of the stock in Shanghai was about Tls. 500, but buyers had increased. On 30 November, Henry Roundy wrote Albert Heard: "They [Russell & Co.] are doing so well that the S. S. N. Co.'s shares are going up, and some of my Chinese acquaintances who tried very hard to get something like a price for their shares last year (at this date) will not sell now at less than 500. Gibb, Livingstons bought recently quite a number of shares from Chinese and others." (HC, HM–58.)

The shareholders know this and trust him thoroughly."[44] F. B. Forbes left his own contribution unsung; however, we may rely on another Russell & Co. partner for a brief note on his accomplishment: "F. B. F. — a very good merchant, with great application, good capacity for leadership and altogether the best man in the house."[45]

The triumph of the "full line"

The entrepreneurial planning of Tyson and Forbes was to show its results in the S. S. N. Co.'s accounts for 1865 and 1866. As can be seen in the following table of the *gross earnings* of the S. S. N. Co.'s Yangtze steamers, the *Moyune* and the *Fire Queen*, together with a third steamer purchased in 1866, the *Plymouth Rock*, accounted for the large earnings of the enterprise after July, 1865:

	1865		1866	
	Jan.–June	July–Dec.	Jan.–June	July–Dec.
Shanse	Tls. 48,347	Tls. 63,255	Tls. 71,360	Tls. 65,538
Szechuen	40,992	45,675	2,436	....
Huquong	55,710	79,662	53,839	25,055
Moyune	....	74,246	84,109	91,341
Fire Queen	....	....	44,560	87,431
Plymouth Rock	....	....	11,357	112,968
Total of the Yangtze line	145,049	262,838	267,661	382,333

These statistics demonstrate the necessity for a "full line" — a need determined by certain technical factors in the operation of the Yangtze steamers.

One fact emerges very clearly from the above table: When the number of the S. S. N. Co.'s steamers increased to four or more, the gross earnings of *each* of the ships on the line increased — which is, of course, very important from the point of view of net profit. The six-month period after the purchase of the *Moyune* shows this unmistakably: the three boats *Shanse, Szechuen*, and *Huquong* increased their gross earnings by 31, 11, and 43 per cent, respectively, as compared with the preceding six months. Explaining the small profits of the steamers in the first half of 1865, the S. S. N. Co.'s directors stated in February, 1866:[46]

> It should be borne in mind that for seven months of the year the Company

[44] F. B. Forbes to P. S. Forbes, 8 Nov. 1866, FBFLB.
[45] Henry Hughes Warden to P. S. Forbes, 15 March 1871, FC.
[46] "Report," 23 Feb. 1866.

had but three boats on the River, instead of a full line of four steamers, and experience has already demonstrated that a full line is indispensable to the profitable working of the business of the Company.

In the first six months of 1866 the earnings of the steamers were comparatively small. But this was precisely because the line was not regularly maintained — for the *Szechuen*, *Huquong*, and *Fire Queen* were laid off for repairs during this period for three months, two months, and one month respectively, while the *Plymouth Rock* did not join the line until June, 1866. From an analysis of the accounts of the S. S. N. Co.'s Yangtze line, F. B. Forbes came to the following conclusion, which he summarized in a letter to Cunningham dated 31 May 1866: [47]

Statement A is an analysis of the earnings of the *Szechuen*, *Shanse*, *Huquong*, and *Moyune* from the 1st May 1865 to 30 April 1866. . . . You will observe that the average freight lists *up* [Shanghai to Hankow] amount to about 2,250 taels and *down* [Hankow to Shanghai] to nearly 3,100 taels and our examination of the more detailed accounts which I don't send you would show unmistakably how the earnings have always fallen off the moment the line is broken, thus giving us some clue to the probable accounts of the capriciously and irregularly running boats of our neighbors.

Why, then, this difference between three and four steamers? The explanation lies in the fact that four was the minimum number of ships required to maintain two weekly departures from both ends of the 600-mile waterway, Shanghai and Hankow. It took a steamer nine to ten days to make the trip from Shanghai to Hankow and back, including the layover at Hankow and the brief stops at two intermediate ports, Chinkiang and Kiukiang. (The trip down the river from Hankow to Shanghai normally took three days, but the trip up the river was slightly longer. The layover period at Shanghai was four days.) With a minimum of four steamers running, the S. S. N. Co. could thus maintain a schedule of two departures a week — on Thursdays and Sundays from Shanghai. In the month of August, 1865, for instance, the shipping intelligence of the *North-China Herald*, Shanghai, listed the following arrivals and departures of the S. S. N. Co.'s steamers:

Date	Arrival	Departure
Wed., 2 Aug. 1865	*Shanse*	
Thurs., 3		*Moyune*
Sat., 5	*Huquong*	
Sun., 6		*Shanse*

[47] F. B. Forbes to Cunningham, 31 May 1866, FBFLB.

Date	Arrival	Departure
Wed., 9	*Szechuen*	
Thurs., 10		*Huquong*
Sat., 12	*Moyune*	
Sun., 13		*Szechuen*
Wed., 16	*Shanse*	
Thurs., 17		*Moyune*
Sun., 20	*Huquong* (late)	*Shanse*
Wed., 23	*Szechuen*	
Thurs., 24		*Huquong*
Sat., 26	*Moyune*	
Sun., 27		*Szechuen*
Wed., 30	*Shanse*	
Thurs., 31		*Moyune*

As indicated above (p. 162), Edward Cunningham had stressed in July, 1862, one advantage of a semiweekly schedule – namely, the fact that with one steamer always at the wharf, the S. S. N. Co. would be able to load cargo on any day of the week without delay. By 1865–66, when the demand for tonnage had increased and when the agreement on minimum freight rates was in force, *regularity of service* assumed greater importance. As Augustine Heard & Co.'s partners observed in the following excerpts, no other firm in the field could offer a similar schedule or loading arrangement: [48]

> We [Heard & Co.] cannot do with one boat what R. & Co. can do with five and with the most admirable godown arrangements. (2 December 1865)
>
> The *Kiangloong* is a good boat, . . . but one boat cannot run against a line, and R. & Co. are by degrees getting all the trade in spite of us and D. & Co., as they offer facilities we cannot give in regularity of service. (9 April 1866)

The addition of the *Plymouth Rock* (1,721 tons) in June, 1866, was fortunate, because then the *Szechuen* was disabled by a broken shaft, and in August, 1866, the *Huquong* was destroyed by fire. The three new boats – *Plymouth Rock, Moyune,* and *Fire Queen* – together with the *Shanse,* were able to keep the semiweekly schedule very regularly during the remainder of the year.[49] It happened that

[48] Dixwell to A. F. Heard, 2 Dec. 1865, HC, HM–30; A. F. Heard to J. Heard and A. Heard, Jr., 9 Apr. 1866, HC, FM–6.

[49] "Report," 18 Feb. 1867. The *Plymouth Rock* figure is for gross tonnage, and is based on American Lloyd's for 1864.

trade on the Yangtze was then developing rapidly, and in the six months ending 31 December 1866, the S. S. N. Co. realized the large net profit of Tls. 153,046.

Purchase Agreements, 1867

If we look now at the status of the Yangtze steam-navigation field as of June, 1866, we find the S. S. N. Co. already in the ascendant. Of the 17 steamers in the trade in 1864, only 12 remained, of which five were the S. S. N. Co.'s own. The remaining rival steamers were as follows: [50]

Dent & Co. (British)	*Fusiyama,*	1,200,	*Hirado,*	1,084
H. Fogg & Co. (American)	*Tahwah,*	590		
Glover & Co. (British)	*Tunsin,*	774		
Augustine Heard & Co. (American)	*Kiangloong,*	945		
Jardine, Matheson & Co. (British)	*Rona,*	1,215	*Glengyle,*	1,933

In June, 1866, Russell & Co. estimated that the S. S. N. Co.'s steamers commanded from one-half to two-thirds of the entire traffic on the Yangtze.[51]

Could the S. S. N. Co. not further consolidate the field? One imponderable in the situation was the effort to be made by the other firms in the field. Might not the rival firms also increase their efficiency by forming a "full line" – either through the expansion of the resources of one firm, or by combining the steamers of several firms? While the present article is designed as a study of the S. S. N. Co.'s problems and policies, we should nevertheless digress at this point long enough to look at the difficulties which hampered the other firms, and which lay in the background of Russell & Co.'s final triumph in January and February, 1867.

Difficulties of rival firms

Among the firms which were rivals of the S. S. N. Co., the most important was Dent & Co., whose large ship *Fusiyama* had taken the lead in lowering freight rates in 1864 (see above, note 26). In 1864, Dent & Co. had planned to expand its Yangtze carrying business, and ordered another steamer, the *Hirado.* As late as the spring

[50] F. B. Forbes to Cunningham, 31 May 1866, FBFLB. The figures for the *Glengyle* and the *Tunsin* are gross tonnages based on British Lloyd's. The gross-tonnage figure given for the *Tahwah* awaits confirmation; the figure given for the *Hirado* is for net tonnage and is the only reliable one known. For the other boats listed here, see above, note 4.

[51] Russell & Co., Shanghai, to P. S. Forbes, 6 June 1866, FC.

of 1866, Russell & Co. partners regarded Dent & Co.'s two Yangtze steamers as "the only ones which can form the nucleus of an opposition to the S. S. N." [52]

Dent & Co. was, however, soon to be the victim of a depression in the China trade. In early 1865, Dent & Co. found its trading and exchange business between China and England declining rapidly.[53] In June, 1865 – in the same letter in which he described Russell & Co.'s financial difficulties (see above, note 40) – George Tyson reported to P. S. Forbes:

> Dent & Co. are anxiously hoping that the steamer building by Dearborn won't come to China. My own opinion is that Dent & Co. are by no means in a sound or safe condition but don't speak of this. They owe a great deal of money and have immense sums locked up in real estate, steamers & other unproductive properties.

Under these conditions, the best Dent & Co. could do about expanding its Yangtze steamer business was to co-operate with other firms in the field and combine the operation of their steamers. In the months following November, 1865, Dent & Co. is known to have discussed such a plan with Augustine Heard & Co., whose *Kiangloong* was one of the best boats on the river. It was hoped that besides the *Fusiyama*, *Hirado*, and *Kiangloong*, another steamer might be obtained to complete a four-boat line. Dent & Co. itself did not want to put up more capital for the project, but worked to raise additional funds in some other way – perhaps by organizing a new joint-stock company to take over all four boats. As late as July, 1866, we find Albert Heard writing to his brothers: [54]

> The first step is to get a boat to run with the *K. Loong*. We can easily get wharfs & premises if required — we can rely on the cooperation of Dent & Co. — & their two boats and our two boats forming a line it may be feasible by & by to amalgamate the whole in one, when the fears of the community are allayed, money becomes plentiful, & speculation again seductive.

Why did the Dent-Heard project fail? Heard & Co. partners' letters of the months following November, 1866, describe many attempts to get Chinese and British merchants to take subscriptions for a new company, but none met with much success. In the background, no doubt, was the depression of the China trade, which resulted in a shortage of capital at the China end. In July, 1866, F. B. Forbes made the following observation regarding a report that

[52] See below, note 62.

[53] Cp. Basil Lubbock, *The Opium Clippers* (Boston, 1933), pp. 371–73.

[54] A. F. Heard to J. Heard and A. Heard, Jr., 10 July 1866, HC, FM-6; see also Dixwell to A. F. Heard, 29 Nov. 1865, ff., HC, HM-30.

Dent & Co. and Heard & Co. were organizing a new steam-navigation company: [55]

> As to starting a brand new company on the Yangtze, I don't think the most visionary mortal would attempt such a thing now, when the very name of "company" stinks in the nostrils of moneyed men. *People haven't the money to spare,* and thanks to the collapse of the weakened banks, there is great contraction in the former vicious system of *facilities.*

And the basic fact was that both Dent & Co. and Heard & Co. were finding themselves deeper in financial difficulties. Dent & Co.'s situation was brought to a head in the latter part of November, 1866, when news came from London (by telegraphic message forwarded to Shanghai from Kiakhta) that Dent & Co.'s London house had "busted" in a financial crisis. In a letter dated 23 November 1866, F. B. Forbes wrote Cunningham: [56]

> The plain truth seems to be this, that Dents are winding up their business and Heards are in a very bad way — so bad, and so notoriously drawing back and forth between this [Shanghai] and Hong Kong, that several of the banks have refused to take any of their papers! These two houses, therefore, are not formidable enemies, and are not in a position to unite their forces against us!

There was, however, one firm which was a *potential* threat to the S. S. N. Co. — the great British house Jardine, Matheson & Co. In the crisis of the China trade in late 1866, Jardine's is known to have been the only British house "above suspicion." [57] Would Jardine's consider expanding its Yangtze steamer business?

Up to this time, Jardine, Matheson & Co. had been singularly unsuccessful in its steamer operations on the Yangtze, chiefly because of the firm's inability to cultivate Chinese business. In June, 1866, we find George Tyson reporting to P. S. Forbes: [58]

> JM & Co. had their *Glengyle* & *Rona* on the river now for near two months, & with exception of their own cargo they have not brought down 50 tons! They cannot work on the river & must soon be withdrawn — but if they choose to keep them they can do us no harm.

Could not Jardine's join forces with Dent & Co. and Heard & Co.

[55] F. B. Forbes to Cunningham, 11 July 1866, FBFLB.

[56] F. B. Forbes to Cunningham, 23 Nov. 1866, FBFLB; cp. G. C. Allen and Audrey G. Donnithorne, *Western Enterprise in Far Eastern Economic Development* (London, 1954), p. 35.

[57] A. F. Heard to P. L. Everett, 14 Jan. 1867, HC, HL–43.

[58] Tyson to P. S. Forbes, 22 June 1866, FC. Referring to his firm's steam-navigation business, James Whittall of Jardine, Matheson & Co. told George Heard in February, 1867, that "he can't cultivate the Chinese as R. & Co. & AH & Co. do!!!" (G. F. Heard to J. Heard and A. Heard, Jr., postscript, HC, FM–9.)

and help realize the combination plan of these two firms? A fact which stood in the way of this idea was the traditional antagonism between Jardine's and Dent's – the two largest British houses in China which had been bitter rivals since the 1830's.[59] In December, 1865, George Dixwell of Heard & Co. did sound out Jardine's on a combination of the steamer operations of the three houses, but was told by William Keswick, Jardine's Shanghai partner, that "JM & Co. would keep their interests separate and not amalgamate." [60] In June, 1866, Jardine's did consider the possibility of co-operation between itself and Heard & Co. But, since Heard's was planning to work together with Dent's, the Jardine-Heard discussion did not go far. As Albert Heard noted in a letter dated 22 June 1866: [61]

> Keswick came to me the other day to speak of running his boats *Rona* and *Glengyle* in connection with ours. I told him of our general understanding with Dents & suggested a union of three houses. This we are now chewing over. It is a change in JM & Co.'s policy — & while I fear that the two can never be made to work harmoniously, I am inclined to think it worth while to attempt it to keep the two great houses out of R. & Co.'s hands.

Securing and capitalizing future profits

Now, as early as the spring of 1866, Russell & Co.'s partners were aware of the possibility that Dent & Co.'s two Yangtze steamers might be available for purchase. On 4 March 1866, we find P. S. Forbes writing the following in a letter to Tyson from the United States: [62]

> Mr. E. Cunningham writes you about the purchase of Dent's boats which are the only ones which can form the nucleus of an opposition to the S. S. N. I recommend E. C.'s suggestions to your careful attention, and if you cannot buy them for the S. S. N. Co., I am willing that you should do it for me, *provided you can raise the money* and at the same time approve of the plan.

It should be noted that P. S. Forbes' own italics emphasize that he was willing to make the investment only if Tyson could convert some of his assets already in China for this purpose.

[59] John King Fairbank, *Trade and Diplomacy on the China Coast* (Cambridge, Mass., 1953), *passim*. The idea of a combination of the steamer operations of Dent's, Heard's, and Jardine's was first suggested by Henry Roundy of Beverly, Mass., a member of the Heard firm. He wrote Albert Heard on 30 Nov. 1865: "If James Whittall [head of Jardine's in China] and John Dent [head of Dent's in China] favor a proper combination of three houses, or a joint stock company, 'we can defy the world' as the Captain of the Dorchester Militia said." (HC, HM–58.)

[60] Dixwell to A. F. Heard, 2 Dec. 1865, HC, HM–30.

[61] A. F. Heard to J. Heard and A. Heard, Jr., 22 June 1866, HC, FM–6.

[62] P. S. Forbes to Tyson, 4 March 1866 (copy), FC.

The question of the Dent purchase came to the fore sometime in July, 1866, when Dent & Co., discouraged by the faint prospects of expanding or reviving its own Yangtze steamer business, let it be known that it was willing to sell the *Fusiyama* and the *Hirado* to the S. S. N. Co. for a total of Tls. 450,000. This offer was rejected by Tyson and F. B. Forbes – as the latter recalled in a letter written a few months later to Cunningham: [63]

> You will excuse me for saying that I don't agree with you as to the advisability of Tyson's accepting Henry Dent's offer of the boats at 450,000 tls. The S. S. N. Co. at the time was not in a position, *I* think, to carry such an additional load and I don't think the boats were worth the price.

As indicated above, in June, 1866, the S. S. N. Co. had purchased the steamer *Plymouth Rock*, which imposed on the enterprise a debt of about Tls. 120,000. (It should be noted that in the purchase of the *Plymouth Rock*, Russell & Co.'s partners were already following the policy of capitalizing the enterprise's impending profits. As of June, 1866, the S. S. N. Co.'s accumulated reserves and profits totaled only some Tls. 36,000.[64] However, the prospects of earnings in the next few months were very good, and the S. S. N. Co. arranged to purchase the *Plymouth Rock* from Russell & Co. for Tls. 155,000; the S. S. N. Co.'s directors agreed that this should be paid out of, first, the existing reserves and then the enterprise's future profits.[65])

However, in a few months' time, the S. S. N. Co.'s position improved immensely – for it now proved its potentialities by reaping large current profits. The net earnings of the enterprise for the six months ending 31 December 1866 turned out to be as much as Tls. 200,846. Meanwhile, the *Plymouth Rock* debt was all but wiped out by the insurance proceeds (£40,000, or about Tls. 115,000) from the *Huquong*, which was destroyed by fire in August.[66]

Assured now of its own earning power – and with a cash balance of some Tls. 200,000 in hand – could the S. S. N. Co. not be bolder in planning future purchases? Towards the end of the year 1866, events took place which were to render the S. S. N. Co.'s position even more secure and the purchase of Dent steamers more feasible. That there was an unexpected element in these events is indicated by the following analysis made by F. B. Forbes in February, 1867,

[63] F. B. Forbes to Cunningham, 16 Oct. 1866, FBFLB.

[64] The S. S. N. Co.'s reserves (Insurance and Depreciation Fund) stood at Tls. 12,532 on 31 December 1865; the net profit of the six months ending 30 June 1866, was 23,753.

[65] Tyson to P. S. Forbes, 22 June 1866, FC.

[66] "Report," 18 Feb. 1867.

when he drew a comparison between the situation as of that date and that of July, 1866: [67]

> No one would have dreamed [in July, 1866] that Dent & Co. would have been pushed into a corner within six months; nor that Jardine's would have assisted them in such a manner that while dealing with one we would be able to bind the other.

The particularly propitious development behind this turn of events was the policy of Jardine, Matheson & Co. In November, 1866, Jardine's decided — as George Tyson had thought likely (see above, note 58) — to discontinue its unprofitable steam operations on the Yangtze, and to move its two boats there to the coastal route between Hong Kong and Shanghai. On 23 November 1866, in the same week that F. B. Forbes heard of Dent & Co.'s difficulties in London, he reported to Cunningham: [68]

> There has been something of a "rapprochement" between Jardines and ourselves, which seems likely to lead to important results in the future. They have taken the *Glengyle* and *Rona* from the river and are going to run them on the coast. *At their request* we have promised to give their steamers support (and we control more than 10,000 peculs a month of through Hankow traffic) in return for their support of our line.

However, a new situation now arose, which made this "rapprochement" lead quickly to important results. As it happened, with Dent & Co. now thrown into deeper difficulties, Jardine, Matheson & Co. came unexpectedly to its aid by endorsing its bills and making it some advances; while Dent & Co., on its part, mortgaged its Yangtze steamers to Jardine's! The situation thus created was that Jardine, Matheson & Co., having already decided to abandon the Yangtze steamer business, would have an interest in seeing the Dent steamers sold quickly at a good price. James Whittall, Jardine's "head partner in the East," decided to encourage Russell & Co. to make the purchase, and offered to negotiate with Russell & Co. on a delimitation of the steam-navigation fields in China. This agreement — which was concluded at the end of January, 1867, after a few days of negotiations at Hong Kong among the three firms: Dent's, Jardine's, and Russell's — contained the following provisions, as summarized by the S. S. N. Co.'s directors in February, 1867: [69]

[67] F. B. Forbes to Cunningham, 3 Feb. 1867.

[68] F. B. Forbes to Cunningham, 23 Nov. 1866, FBFLB.

[69] "Report," 18 Feb. 1867; A. F. Heard to P. L. Everett, 14 Jan. 1867, HC, HL–43. "Dent & Co.'s boats came into Whittall's hands by way of security for advances made to D. & Co. & W[hittall] proposed the purchase to R. & Co., who accepted his terms after a few days discussion." (A. F. Heard to J. Heard and A. Heard, Jr., 27 Jan. 1867, HC, HL–43.)

Messrs. Jardine, Matheson & Co. and Messrs. Dent & Co. agree on their part, not to be interested either as agents or owners for a period of 10 years in any boats on the Yang-tsze other than those of this Company. Messrs. Russell & Co. have engaged on behalf of the Company, that it will not run any steamers to any ports on the Coast of China, South of Shanghai, Ningpo excepted, for a like period of 10 years, and that the rate of freight on the river shall not be raised above Tls. 5 per ton from the river ports to Shanghai, or above Tls. 6 per ton and 5 mace per pecul from Shanghai to the river ports, and that the Company will always provide sufficient steamers for the public needs.

It can be seen here that Jardine, Matheson & Co. bound itself not only to refrain from any attempt at interfering in the Yangtze carrying business in the foreseeable future, but also to support the S. S. N. Co. in raising the freight rates on this river.

Its position thus strengthened, the S. S. N. Co. could afford to commit its future earnings for the purpose of purchasing Dent & Co.'s steamers. Dent & Co. got a good bargain – the S. S. N. Co. agreed to pay a total of Tls. 550,000 for *Fusiyama* and *Hirado* as well as Dent & Co.'s waterfront properties in Shanghai (Honque and Pootung). Of the Tls. 550,000, Tls. 100,000 was to be paid in cash within two months of delivery, and Tls. 125,000 in the form of the S. S. N. Co.'s new shares, to be issued in February, 1867. However, the remaining Tls. 325,000 was to be covered by promissory notes in the amounts of Tls. 45,000, Tls. 140,000, and Tls. 140,000, payable 8, 12, and 18 months after delivery, with interest at 8 per cent. The S. S. N. Co. also agreed to purchase a steamer which Jardine, Matheson & Co. had previously ordered from England, for £35,000 (about Tls. 103,000), to be paid for in three equal installments, 8, 12, and 18 months after delivery, with interest at 8 per cent. The S. S. N. Co. thus stood committed to the two British firms for a sum of Tls. 528,000 (not counting the Tls. 125,000 in shares), payment being spread out over the next two years.[70]

On 2 February, 1867, upon receiving news of the success of the negotiations at Hong Kong, F. B. Forbes wrote to Edward Cunningham (who had returned in December, 1866, to replace Warren Delano, Jr., as the firm's head in China for the next term of partnership, 1867–69, and who conducted the negotiations with Jardine's and Dent's at Hong Kong): [71]

Tyson's arrival this morning set our minds finally at rest as to the success of your negotiations with Dents and Jardines, and filled us with joy at the realization of what has been our dream for many years. I really think you

[70] "Report," 18 Feb. 1867.
[71] F. B. Forbes to Cunningham, 3 Feb. 1867, FBFLB.

and Tyson are entitled to the credit of having carried through the greatest piece of commercial financeering ever known to China. To you especially, this result must be gratifying, as your last master stroke places in your hands what your foresight long ago predicted must someday or other come to the enterprise which you started. . . .

I doubt not our future conduct will satisfy them [the English firms] that the change has been in their interest as well as our own. Regularity of communication and uniformity of freights they have already learned to appreciate through the Company, and these advantages are now most fully secured to them. Besides, the world (and especially that British matron Mrs. Grundy) always pats the winner on the back!

In February, 1867, Russell & Co. partners completed their triumph by purchasing two of the three rival steamers still remaining. H. Fogg & Co.'s *Tahwah* was taken over for a sum of Tls. 40,000, payable within six months of delivery. On 12 February, Cunningham concluded with Albert Heard at Hong Kong the purchase of the *Kiangloong*, at Tls. 212,500, payable immediately.[72] It is known that to raise funds for the *Kiangloong*, the S. S. N. Co. obtained a loan from the Hong Kong branch of the French bank Comptoire d'Escompte de Paris. On 18 February 1867, the S. S. N. Co.'s General Meeting of Shareholders decided to issue new shares of a total of Tls. 250,000, of which Tls. 125,000 was handed to Dent & Co. (see above, p. 183) and the remaining Tls. 125,000 probably subscribed to by individuals close to Russell & Co.[73]

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The S. S. N. Co. thus entered upon a period of virtual monopoly on the Yangtze River which was to last five years. Between 1867 and 1871, the only other firm regularly in the steam carrying trade on the Yangtze was the Union Steam Navigation Company (Glover & Co. – and after 1871, Olyphant & Co. – agents), which operated two steamers under agreement with Russell & Co.[74] After 1872, however, new competitors backed by strong capital forces were to appear on the scene. In 1872, the China Navigation Company (Butterfield & Swire, agents) was organized with the backing of

[72] "Report," 18 Feb. 1867; A. Heard & Co. to Russell & Co., Hong Kong, 13 Feb. 1867, HC, EL–6. Heard & Co. also bound itself not to return to the Yangtze steam field for 10 years.

[73] "Minutes of an Extraordinary Meeting of Shareholders," 23 Feb. 1867; F. B. Forbes to Cunningham, 15 Oct. 1867, FBFLB.

[74] The U. S. N. Co. was formed around July, 1867, operating the *Tunsin* and *Rona*, the latter purchased from Jardine's. A copy of the freight-rate agreement between the S. S. N. Co. and the U. S. N. Co. on 17 Sept. 1868 can be found in Russell & Co. Canton Papers (Baker Library).

the Ocean Steamship Company of Alfred Holt of Liverpool; by 1875 this company had six steamers on the Yangtze River.[75] Meanwhile, a Chinese enterprise supported by government officials and managed by former compradors, the China Merchants' Steam Navigation Company, made a strong bid for the carrying business on the Yangtze as well as on the coast. In January, 1877, exactly ten years after the Dent purchase, the S. S. N. Co. sold its entire fleet and properties to this Chinese enterprise for Tls. 2,000,000.[76]

In the five years after 1867, the S. S. N. Co. realized large profits. In February, 1867, the company declared its first dividend of 8 per cent upon stock capital. In the year 1867, thanks particularly to an unexpected need for cotton in the upper Yangtze valley due to failure of cotton crops there, the S. S. N. Co. realized the spectacular net profit of Tls. 806,011, and was able to wipe out its entire debt incurred in January–February, 1867, before the end of the year! [77] In February, 1868, a *stock* dividend of 50 per cent was declared, to represent the growth in the enterprise's assets. Thereafter, the S. S. N. Co. maintained its annual net profit above the level of Tls. 400,000 until 1872 – and declared an annual cash dividend of 12 per cent until 1875, when it dropped to 7 per cent. The S. S. N. Co.'s capital investment continued to grow, and after 1867 the company developed strong coastal lines between Shanghai and Ningpo and between Shanghai and the North China ports. In 1872, the number of its fleet reached 18, and its total assets were valued at Tls. 3,323,901.[78]

The S. S. N. Co's history after 1867 deserves further exploration. However, from the above account of the years 1862–67, we may already draw some conclusions of value to our understanding of industrial capitalism – the concept defined in Professor Gras's *Business and Capitalism*. For what emerges from these pages is an example of the administration of a modern transport enterprise which

[75] W. S. Lindsay, *History of Merchant Shipping and Ancient Commerce* (London, 1883), IV, 434–37; *NCH*, 25 Jan. 1872, 60; Imperial Maritime Customs, *Report on Trade*, 1875 (Shanghai, 1877), 102.

[76] George F. Seward to Hamilton Fish, 30 Jan. 1877, *Foreign Relations of the U.S., 1877* (Washington, D. C., 1877), pp. 88–91; "Report," 23 March 1877.

[77] F. B. Forbes to William Howell Forbes, 24 Feb. 1868. In 1867, shipping cotton up the Yangtze alone brought the enterprise a gross earning of some Tls. 240,000. ("Report," 21 Feb. 1868.)

[78] In 1871, the S. S. N. Co. issued an extra scrip dividend of a total of Tls. 375,000, which was converted to stock in 1872, making the total of the company's stock Tls. 2,250,000. Except for conversion of dividends into stock, the S. S. N. Co. never made another issue of stock after 1867. ("Report," various years.)

was founded by a foreign-trade firm but which, once started, could not rely further on sustenance by mercantile capital. The development of this enterprise, in reference to some theoretical issues, may be summarized as follows.

Development from competition to monopoly

Students of economics would be quick to point out that there was inherent in the Yangtze steamer business in the 1860's a naturally monopolistic situation — a situation determined by technical factors in relation to the existing demand. We have indicated above that a "full line" of four or more steamers constituted the optimum size for the operation of the S. S. N. Co.'s business. In June, 1866, the S. S. N. Co.'s line already commanded from one-half to two-thirds of the entire traffic of the river (see above, note 51). Under the circumstances there was barely room for another "full line" — in other words, for a duopoly.

Foreign trade and industrial investment

The reason why a duopoly did not result in this case is historically demonstrable — it was the unavailability of new capital for this particular business. We have shown that in the background of the S. S. N. Co.'s final triumph was the depressed state of the China trade in 1865–66. At that particular juncture even the prosperous British firm Jardine, Matheson & Co. decided against another attempt at the Yangtze steamer business. All this indicates the importance of foreign trade to industrial development, particularly in a country where indigenous capital is scarce.

Accumulation of capital in an underdeveloped area

Yet the S. S. N. Co. did not win out simply on the strength of the venture capital it absorbed. To be sure, the S. S. N. Co. had a relatively large initial capital — the Tls. 1,000,000 organized in Shanghai in 1861–62. But the fact that this capital was not ample can be seen in the enterprise's problem of indebtedness in 1863–64. Moreover, the need for capital arose continuously. As an account of the two years 1865–66 shows very clearly, in striving for optimum operation of the business the S. S. N. Co. had to seek replenishment and expansion of its capital equipment.

The real achievement of the S. S. N. Co. thus lies in its continuous capital expansion, which was made possible by the basic good work in management and planning. We have shown above that the S. S. N. Co.'s two crucial purchases in 1865 were made through a

APPENDIX I

Net Profits of the Various Accounts of the S. S. N. Co., July, 1863–December, 1866

(Numbers in parentheses indicate the number of steamers in operation on a particular route.)

	Yangtze River	Shanghai–Hong Kong [a]	Shanghai–Ningpo	Shanghai–Tientsin	Storage	Total
1863 July–Dec. Tls.	45,834(5)	497(2) [b]	....	....	17,649	63,980 [c]
1864 Jan.–June	85,760(5)	−19,446(2) [b]	....	....	5,716	72,030
1864 July–Dec.	33,162(3)	−14,398(2) [b]	6,183(1)	....	16,665	41,612
1865 Jan.–June	29,450(3)	−12,849(2) [b]	7,078(1)	....	1,881	25,560
1865 July–Dec.	89,286(5)	− 5,323(2) [b]	16,456(1)	....	8,865	109,284
1866 Jan.–June	36,028(4)	....	−9,789(1)	....	−2,486	23,753
1866 July–Dec.	153,046(5)	....	10,659(1)	33,452(1)	3,689 [b]	200,846

[a] Includes occasional trips to Japan.
[b] Includes the account of the small steamer *Tsatlee* (80 tons gross), later used as a hulk.
[c] Net profit for July–December, 1863, before "general expenses" and "extraordinary expenses" were deducted.

plowing-back process. Even in the series of purchases made in January–February, 1867, what Russell & Co. partners relied upon was not outside finances, but the enterprise's own earning capacity. Of the new capital investment the S. S. N. Co. made in 1865–67 – which amounted to a total of Tls. 1,275,000 – Tls. 849,044 was covered by the enterprise's past or future profits, Tls. 175,956 by the proceeds of insurance, and only Tls. 250,000 by a new issue of stock. The administration of this steam-navigation enterprise in China thus demonstrates the basic mechanism of industrial capitalism: *the accumulation of capital within an enterprise as a result of the necessity to operate efficiently.* This process has been fundamental in the industrial growth of the West. It is of crucial importance in underdeveloped areas where capital resources are deficient.

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The Reformer Reformed: John H. Reagan and Railroad Regulation

The changing attitude toward railroad regulation of reformer John H. Reagan tells much about the validity of the objections raised by railroadmen of the 1880's to such regulation. In tracing Reagan's career thus, a question of historiography is raised. Can careful utilization of contemporary attitudes toward business situations compensate for the subjectivity of the historian himself?

The current debate over the reinterpretation of the role of the robber barons in the 1880's points in a special form to some of the difficulties inherent in the writing of history.[1] Does such a reappraisal imply the complete acceptance of a Relativist position? How can the business historian be reasonably certain that his work will reflect more than just the fleeting historical vogue?

Granted that some frame of reference is inescapable, one way in which objectivity can be approached is by a thorough utilization of contemporary sources. In the writing of business history, especially, few source materials can be more illuminating than the opinions of contemporaries. Some beginnings in the use of this method have been made by Professor E. C. Kirkland in his analysis of the opinions regarding Big Business of three high-placed contemporaries of the Gilded Age, Charles F. Adams, Jr., E. L. Godkin, and Andrew Carnegie. On the basis of this exploratory investigation Professor Kirkland believes that the conclusion of these men — that the business order of their day was not all evil, loss, and hypocrisy — should lead to a more balanced judgment of the era.[2]

[1] Allan Nevins and Mathew Josephson, "Should American History be Rewritten?" *Saturday Review of Literature*, Vol. 37 (6 Feb. 1954), 7–10; Vaughn Bornet, "Those Robber Barons," *Western Political Quarterly*, VI (June, 1953), 342–6.

[2] *Business in the Gilded Age* (Madison, 1952), p. 59; for an approach to the study of the thought of businessmen themselves see Thomas C. Cochran, "A Plan for the Study of Business Thinking," *Political Science Quarterly*, Vol. 62 (March, 1947), 82–90, and his *Railroad Leaders, 1845–1890* (Cambridge, 1953).

But Professor Kirkland's analysis also can be carried one step further if the opinions of the reformers, of men who for many years opposed certain business interests during the period, are followed over a span of years. For it can hardly be denied that many of those who sought government regulation of business in the Gilded Age had little knowledge about the technical problems involved, indeed had little notion of the magnitude and complexity of the task they sought to undertake. No wonder, therefore, that in the case of some of these reformers a rather drastic reversal of their views took place. And this shift of opinion provides an important cue to a more balanced appraisal, not only of the reformers themselves, but also of their erstwhile protagonists.

As a concrete "case study," the opinions of John H. Reagan, the co-author of the Interstate Commerce Act of 1887, may be found to be illuminating. During the period 1877 to 1887 the former Postmaster-General of the Confederacy, then chairman of the Committee on Commerce in the House, became one of the leading advocates of national railroad regulation. Over the course of the decade he labored unceasingly to obtain the adoption of his pet measure, the famous Reagan Bill. Partly as a reward for his efforts, which resulted in the passage of the Interstate Commerce Act, in 1887 he was elevated to the United States Senate. There he played a rather inconspicuous role until 1891 when he resigned his seat to become the first chairman of the newly created Texas Railroad Commission.[3] In this capacity he acquired a firsthand knowledge of the technical intricacies of the railroad business and of its regulation. After 14 years of such practical experience his views underwent a decided change.

* * *

Reagan's fear of monopoly, inherent in his agrarian background, manifested itself early in his public life. In 1859, for example, when a Pacific Railroad bill was before the House, he expressed opposition to the measure since it contained a provision that would have allowed nonstockholders to obtain control of a contemplated construction company. At the same time he introduced an amendment designed to prevent speculators from obtaining monopolistic control of such an enterprise.[4] While this amendment was adopted by

[3] A fuller discussion of Reagan's relation to railroad regulation is found in Gerald Nash, "A Chapter from an Active Life: John H. Reagan and Railroad Regulation" (Ms. M.A. thesis, Columbia University, 1952).

[4] *Congressional Globe*, 36th Cong., 1st Sess., pp. 2336–2337, 2412.

the House, amidst the sectional controversy in Congress the Pacific Railroad bill as a whole failed of enactment.

As Postmaster-General of the Confederacy, too, Reagan showed concern over monopoly in transportation. One of his tasks was to obtain the co-operation of the Southern railroads in carrying mail for the Confederate government.[5] Though the carriers assumed a helpful attitude at the beginning of the war, increasingly they ignored the authorities. Much of Reagan's time and energy thus were spent in efforts to curtail their independent actions.[6] His fear that private corporations would defy or manipulate the government was certainly rooted in reality. "Wealthy corporate monopolies," he wrote in his annual report for 1863, "should not occupy such a position in relation to the postal service as would place such service completely within their control." [7] Reagan's Civil War experiences, therefore, increased his awareness of the railroads' monopolistic powers.

By 1877, the year in which Reagan became chairman of the House Committee on Commerce, the question of government regulation of railroads had become more acute. Reagan's attention was drawn to the problem because of the persistence of his fear of monopoly, for of special technical competence he had little. Consequently his advocacy of legislation was not based on a careful appraisal of conditions prevailing in railroad transportation. Rather, his was an emotional response to some real as well as imaginary evils.

The measure which he proposed, therefore, was hardly adequate to cope with the realities of the situation. In fact, the Reagan Bill itself was a direct outgrowth of the struggle between Rockefeller and the independent oil producers of Pennsylvania, and reflected the interests of the latter.[8] Among its important provisions was a clause outlawing rebates and discriminations. In addition, it contained a rigid short and long haul clause which took little cognizance of the principle of diminishing returns, so important in actual railroad operation.[9] Another major purpose of the bill was to outlaw raiload pools. As the various railroad experts pointed out correctly

[5] Robert Black, *The Railroads of the Confederacy* (Chapel Hill, 1952), pp. 52–54, has a good brief description of Reagan's early efforts in this sphere.

[6] See, for example, *Correspondence between the President of the Virginia Central Railroad and the Postmaster-General in Relation to the Postal Service* (Richmond, 1864), pamphlet in Reagan Papers.

[7] Confederate States of America, *Annual Report of the Postmaster-General, 1863* (Richmond, 1864), p. 11, in Reagan Papers.

[8] This point will be elaborated in a manuscript now in preparation.

[9] The clause made it unlawful "to charge . . . greater compensation . . . for a shorter than for a longer distance which includes the shorter." For the

in their testimony on the bill during congressional hearings, such a prohibition was based on a misconception of the function which railroad pools were performing in the early eighties.[10] Gradually the pools were preventing the recurrence of cutthroat competition which had been so detrimental both to the railways and the public. All of these strictures on railroad "abuses," some of which, like rebates, undoubtedly were real, were to be enforced through the agency of the regular courts, though Reagan left himself open to the establishment of a commission.[11]

Like most reformers and antimonopolists of the period, Reagan couched the arguments for his bill primarily in moral terms.[12] Against the contention of the leading railroad experts that technical competence was required to provide a workable form of regulation Reagan replied that, on the contrary, all that was needed was an honest conscience.[13] He could see no need for experts "on the alleged ground that there is some mystery connected with the management of railroads which members of Congress and others not expert cannot understand. . . ."[14] For him the problem was quite simple. "The qualifications requisite to deal with this question are an honest conscience and a purpose to do right," he said. "This bill . . . only invokes common sense and common honesty. . . . No outside expert is necessary for that purpose."[15] These views reflected Reagan's Jacksonian philosophy of government, which left little room for the expert in administration.

Experts were not required because, Reagan thought, the operation of railroads was no different from that of any other kind of business. Railroads, he said, should run their affairs like other forms of

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most convenient reprint of the Reagan Bill see Edward McPherson, *Handbook of Politics for 1886* (Washington, 1886), pp. 10–12.

[10] U.S. Congress, House, *Miscellaneous Documents*, 47th Cong., 1st Sess., Vol. 13, no. 55 (Washington, 1882), pp. 6, 65, 113–18, 188–90, hereafter cited as *Hearings*, 1882; see also U.S. Congress, Senate, *Report of the Select Committee on Interstate Commerce*, 49th Cong., 1st Sess. (Washington, 1886), Vol. II, pp. 72, 170, 581, 741, 831, 1262, 1323, hereafter cited as *Hearings*, 1885.

[11] *Cong. Record*, 45th Cong., 2d Sess., p. 3276; letter to *The Daily World* (Nashville, Tenn.), 25 Jan. 1885, clipping in Reagan Papers.

[12] For Reagan's political connections with antimonopolists see Gerald Nash, "Selections from the Reagan Papers: the Butler-Reagan Ticket of 1884," *Journal of Southern History* (May, 1955).

[13] *Speech of Honorable John H. Reagan made in the House of Representatives on the first day of June, 1880* (Washington, 1880), p. 13; *Cong. Record*, 47th Cong., 1st Sess., Appendix, p. 135.

[14] *Speech . . . Reagan, June 1, 1880*, p. 18.

[15] *Ibid.*, p. 13; *Cong. Record*, 47th Cong., 1st Sess., Appendix, p. 135; *Hearings*, 1882, p. 247.

business enterprise.[16] "The present methods of business and management by our railroad experts is a failure," he noted, ". . . because it is based on wrong principles. It is a failure because they disregard ordinary business principles and the rules of common fairness and common honesty." [17] All of the patient explanations by the experts could not sway him from this view.

Much of this same moralistic approach colored his defense of the specific provisions of the Reagan Bill. He did not pause, for example, to consider the complexities of the short and long haul clause. "Every honest man knows this provision to be just and proper. It only requires an honest conscience to determine it." [18] Nor did he grasp the far-reaching ramifications of the antipooling clause. Reagan's objections to pooling sprang from the erroneous idea that it promoted rate wars, the very problem which the pools were designed to alleviate. More sensibly, he argued that it was dangerous to allow private corporations to wield such independent power as the various railway associations were then exercising. Yet, this problem, too, he remarked, "needs only an honest conscience for its solution." [19] Indeed, it was only because of Reagan's stubborn adherence to his unsophisticated views on pooling in the House-Senate Conference Committee of December, 1886, that the prohibition of railway pools was included in the Interstate Commerce Act of 1887.[20]

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The actual experience which Reagan encountered as chairman of the Texas Railroad Commission after 1891, however, led him to reverse many of his former views. Thus, he soon came to realize that more than an honest conscience was required to deal with the intricacies of the railroad business. In fact, now he became an outspoken advocate for the use of railroad experts in regulation. When, for example, in 1892 the Populist gubernatorial candidate in Texas accused Reagan of incompetence because of the Texas Railroad Commission's need for experts, Reagan bluntly charged him with

[16] *Hearings*, 1882, pp. 12, 74, 126.

[17] *Cong. Record*, 47th Cong., 1st Sess., Appendix, p. 136.

[18] *Speech . . . Reagan, June 1, 1880*, p. 18.

[19] *Hearings*, 1882, p. 248; *Speech . . . Reagan, June 1, 1880*, p. 18.

[20] Shelby M. Cullom, *Fifty Years of Public Service* (Chicago, 1911), pp. 322–3; *Philadelphia Press*, 4 Dec. 1886; *New York Times*, 10 Dec. 1886; the provision was copied directly into the constitutions of Arkansas, California, Iowa, Minnesota, Nebraska, North Dakota, South Dakota, and Wisconsin. See U.S. Industrial Commission, *Report* (Washington, 1900), IV, 929.

being "utterly ignorant" of the subject.[21] It was primarily due to his insistence, also, that in 1898 the Texas State Democratic platform included a special plank endorsing the need for, and the employment of, railroad experts.[22]

He also came to recognize the peculiarities of railroad transportation. Though in the eighties he had often repeated that the railway business was like any other, he now went on record as stating that "competition between railroads is different from competition in other lines of business," and would not produce fair rates.[23]

No less complete was his reversal on the specific items which had been features of the Reagan Bill, such as the short and long haul clause. "As there is no science in ratemaking," he said in 1899, ". . . you have to be guided by experience from day to day. There is no uniformity . . . there are a great many things you must necessarily put very low rates on . . . then there are other things . . . you have to put a very high rate on."[24] To be sure, the mileage basis might be the most proper one for rate making, but it was not always feasible. "There are so many circumstances affecting traffic," he wrote, "that the theory . . . is destroyed in practice."[25]

Reagan's views on pooling also underwent some change. As early as 1892 he wrote to the Interstate Commerce Commission that "further study has caused me to believe that Section 5 [prohibition of pools] may be amended to benefit both the railroads and the people."[26] Now he realized the necessity of such railroad pools, but advocated their regulation by the Interstate Commerce Commission. Essentially this was the position which had been taken by the various railway experts in their testimony before congressional committees in the eighties.[27] Again, in 1896, as chairman of the Committee on Pools of the National Congress of Railroad Commissioners, he brought in a report strongly favoring railroad pools under government supervision.[28]

[21] *Crockett* [Texas] *Courier*, 17 Oct. 1892, Reagan Papers.

[22] Reagan's original draft in Reagan Papers; adopted plank in Ernest Winkler (ed.), *Platforms of Political Parties in Texas* ("Bulletin of the University of Texas," no. 53 [Austin, 1916]), p. 403.

[23] *Galveston News*, 24 Feb. 1901, clipping in Reagan Papers.

[24] U.S. Industrial Commission, *op. cit.*, IV, 346; original typescript of his testimony before the Commission in Library of Interstate Commerce Commission, Washington, D.C.

[25] Texas Railroad Commission, *Annual Report, 1894* (Austin, 1895), p. iv.

[26] Interstate Commerce Commission, *Annual Report*, 1892 (Washington, 1893), p. 236.

[27] See above, footnote 10.

[28] *Proceedings of a National Convention of Railroad Commissioners*, 1896 (Washington, 1897), pp. 105–8.

Many times Reagan was attacked for his changed views. In reply, he once noted that he would: [29]

> . . . rather pity the man who had not intellect enough to investigate and learn, or who had not manhood enough to admit that he had learned something that he did not know before.

At last, the reformer had reformed.

* * *

The development of Reagan's ideas concerning railroad regulation highlights many of the false premises on which much of the movement for federal control of transportation was based. Such a judgment does not imply, of course, that the basic aim of reformers like Reagan, to subject private carriers to public control, was not sound. Yet, the demand for national railroad regulation often represented an emotional, if understandable, response to evils, not all of which were real. If its basic aim, public supervision of private corporations, was valid, the means which were advocated to achieve this goal often rested on erroneous assumptions.

At the same time, Reagan's changing outlook is of value in judging the attitudes of railroadmen themselves. Certainly, contemporary sources provide much evidence to challenge the assertion, later made, that these executives exhibited a chronic intransigence toward regulation.[30] It is true that in the 1880's certain railroad leaders did actively oppose the principle of government regulation.[31] Substantial evidence exists to indicate, however, that in many quarters the inevitability of regulation had been accepted. If objections to pending legislation were made, these were directed primarily at the means by which this regulation was to be effected.[32] In the light of con-

[29] *Houston Post*, 30 Apr. 1892, in Reagan Papers.

[30] This contention is advanced in various forms in C. McArthur Destler, "The Opposition of Businessmen to Social Control in the Gilded Age," *Mississippi Valley Historical Review*, Vol. 40 (March, 1953), 646; D. Dumond, *A History of the United States* (New York, 1942), p. 623; George Soule, *Economic Forces in American Life* (New York, 1952), p. 112.

[31] See Cochran, *Railroad Leaders*, p. 197.

[32] This conclusion is based on a thorough examination of the testimony of railroadmen before congressional committees in 1879, 1880, 1882, 1884 and 1885. See George R. Blanchard, *Argument before the Committee on Commerce of the Senate of the United States in Opposition to the Reagan Bill* (New York, 1879), p. 61; Albert Fink, *Argument before the Committee on Commerce of the House of Representatives* (New York, 1880), p. 3; *Argument of Mr. Franklin B. Gowen before the Committee on Commerce of the House of Representatives* (Philadelphia, 1880), p. 22; *Hearings*, 1882, pp. 1, 53, 138, 145, 162; *Hearings*, 1885, pp. 84, 169, 208, 232, 580, 599, 620, 739, 825, 903, 1269, for samples.

temporary knowledge about railroad economics, then and now, it cannot be denied that these objections were substantially justified. When stressing the need for experience in transportation matters, or the peculiarities of the railroad business, the intricacies of a short and long haul clause, or the functions of a railway pool, the railroad leaders were laying the basis, too, for the systematic study of American railroad transportation.

Thus, the reversal of views on the part of a reformer like Reagan perhaps explains better than mere technical detail some of the positive contributions made by the railroad managers in the Gilded Age. In a broader sense, also, this case study of changing contemporary attitudes has sought to suggest the utility of such an approach to the study of business history, one which can counterbalance the subjectivity inherent in the historian's own frame of reference.

BOOK REVIEWS

The Self-Made Man in America: The Myth of Rags to Riches. By Irvin G. Wyllie. New Brunswick, Rutgers University Press, 1954. Pp. 210. $4.00.

The Reputation of the American Businessman. By Sigmund Diamond. Cambridge, Harvard University Press, 1955. Pp. 209. $4.00.

The Dollar Decade: Business Ideas in the 1920's. By James Warren Prothro. Baton Rouge, Louisiana State University Press, 1954. Pp. x + 256. $4.75.

A reviewer is always relieved and grateful when he is able in good conscience to speak favorably of a book assigned to him. To find merit in each of three books assigned for review together is so rare as to be miraculous. I am in this fortunate position.

Each of these books is based on research originally done for a doctoral dissertation: by Wyllie at Wisconsin, by Diamond at Harvard, by Prothro at Princeton. If their studies were representative of the work being done in American graduate schools (as they assuredly are not), we could feel more pride and more hope than is warranted today.

Each of the books is an analytic description of the views of a defined group of Americans toward SUCCESS: what success is, how a man becomes successful, what significance should be attached to success. Wyllie's sources are the vast body of self-help literature published between Benjamin Franklin and Henry Ford, especially the How to Succeed books and the inspirational biographies and autobiographies of businessmen. Diamond dissects the obituaries published in newspapers and magazines at the deaths of six foremost business executives: Stephen Girard (1831), John Jacob Astor (1848), Cornelius Vanderbilt (1877), J. P. Morgan (1913), John D. Rockefeller (1937), and Henry Ford (1947). Prothro makes a more formal analysis of the philosophy expressed by leaders of the National Association of Manufacturers and the United States Chamber of Commerce during the 1920's. Since they deal with the same broad theme from different perspectives, with different methods, and using different sources, the three books serve admirably to buttress and supplement each other.

The self-help ideology, as it was propagated in hundreds of books and articles throughout the nineteenth century, was built of a few simple and standardized threads. Success meant especially success in business. It resulted from traits *within* the man, from character. The chief elements in character were industry, frugality, and sobriety. Native genius was no help; indeed, it was a handicap. A man who failed in life had only himself to blame, for opportunity was equal for all. These themes have persisted without change up to the present, but the self-help creed has made some minor adjustments. A century ago formal education was scorned; the thing to do was to start getting practical experience at an early age. The rise of the specialist in the latter part of the century forced an adaptation, and even Andrew Carnegie finally conceded the value of college training. Self-help spokesmen have come to talk "less about improvement of character and more about improvement of personality." But the faith of the fathers is unshaken among the sons.

While the creed remained the same, its social function and effect changed radically. In the hands of Franklin and even as late as Lincoln, the cult of the

self-made man had an antiaristocratic tone — it was a way of doing battle with those who saw virtue in high birth and a Harvard education. After the Civil War the doctrine passed into the hands of the conservatives and became a way of defending the status quo. Since success was a result of good character, who could begrudge a man his hundred million dollars? During the depression of the 1870's, relief for the unemployed was widely opposed on the ground that poverty resulted from personal vice. To subsidize poverty was to subsidize vice. Who would flirt with Satan in this brazen way?

Such are the outlines of Wyllie's story, which is embellished with carefully chosen quotations, keen insights, and subtle probing of the complexities. Some lesser findings should be mentioned. However much the West may be regarded by historians as the land of opportunity, the self-help ideology was emphatic in proclaiming that the most glittering chances lay in the cities of the East. Nor did the self-help prophets proclaim any crass doctrine of wealth at all costs. They insisted that man must follow an honest trade, and that he must use honest methods within his trade. Since they saw opportunities as limitless, they had no need to preach a war of all against all. They took their prescriptions from Jesus, not from Herbert Spencer. John D. Rockefeller, whose statement about the American Beauty rose has been widely cited as an instance of Social Darwinism, was really a pious Baptist.

An outstanding virtue of Wyllie's book is that he deals with ideology against a solid background of reality. In his words: "Important though Franklin was as a symbol and inspiration, the magnificent economic opportunities of nineteenth-century America constituted a far more important inspiration to young men in quest of wealth." Wyllie makes full use of the quantitative research which has been done on business leaders by Taussig, Miller, Gregory and Neu, and others. Lastly, he finds that, when economic opportunities became less abundant (as during the 1930's), the self-help ideology became relatively emaciated.

Wyllie's account is given added dimensions by Diamond's analysis of the obituaries. Again, it is possible only to summarize the chief findings. The newspaper appraisals of Girard and Astor were concerned almost entirely with the *uses* they made of their wealth. Girard was praised, Astor condemned, chiefly on this score. The only commentators who showed much concern with the business careers of these men and the *sources* of their wealth were those who were hostile to the subject. At Vanderbilt's death new touchstones were applied. No particular importance was attached to his failure to leave any of his vast fortune to public purposes. By that test he was clearly loathsome, but that was not the test. The test was his business activities, and so he merited great praise for his achievements. Also — and this was a new feature with the obituaries of Vanderbilt — much space was given to humanizing the millionaire and pointing up those qualities which he shared with lesser men: his religious devotion, his affectionate family group.

The shibboleths first applied to Vanderbilt persisted in the twentieth century: Was a man constructive in his business career? Did he go to church? Was he kind to his children? But new themes emerged and became stronger. The success of a Rockefeller or a Ford was no longer ascribed to his personal characteristics alone, although they were surely essential in the story. These men collaborated in success, as it were, with a beneficent environment, the free-enterprise economy. No environment could enable an unworthy man to suc-

ceed, but the wrong environment (here read — "too much government interference") could thwart and frustrate the most able man in the world. This led swiftly to a complete identification of the economic system with the nation, of "free enterprise" with "democracy" and "the American Way." Praise of Rockefeller and Ford was simultaneously and equally praise of the free-enterprise system.

At this point Prothro can take over, with his extended analysis of the philosophy expressed during the 1920's by the leaders of the two main national organizations of businessmen. He finds these major elements in their writing. Man is *born* unequal (a far cry this from the self-help exponents of an earlier day, who insisted that character must be achieved and cannot be inherited). The elite will turn naturally to business, since it is human nature to place material rewards at the apex of your scale of values. Anybody who does not is simply demonstrating his inferiority. While they specialize in the most difficult occupations, those of the business world, the elite also know more about religion than do ministers, more about education than do professors. Their genius is universal.

Since it is the nature of man to emphasize material rewards, the major instrument of society is business. Government is clearly subordinate. The chief function of government is to do police duty and see that social stability is not disturbed. Nobody but trouble-makers and foreigners would try to disturb the present economic arrangements anyway, since those arrangements are ideal ones: everybody has an equal chance and the natural elite rise to the top. If the elite should be shackled by a hostile government, all progress would end and society itself would collapse. This happened to Rome. And there is grave danger that it will happen here. The great mass of people are ignorant and cannot recognize their own best interests. Political demagogs deceive them. Unfortunately, in the United States even the ignorant masses can vote, so it is essential that government should not respond with enthusiasm to the popular will. The Founding Fathers were wise in establishing checks and balances — the more the better. Some governmental bodies afford more ground for hope than others, such as the Supreme Court, expert administrators who understand business, and statesmen like Mr. Mellon and Mr. Hoover. But no government should have the power to interfere with the individual businessman in the conduct of his business. Of course government must interfere vigorously with the individual workingman who combines with his foolish fellows to go on strike, or with the individual citizen who seeks to alter those ideal arrangements which constitute the American Way of Life.

Taken in sum, these three books show a far-flung and persistent effort to enshrine the interests of a limited social group as the interests of everybody in the United States. To paraphrase a current expression, what is good for business is good for the country. Out of such soil has grown the burgeoning doctrine of the social responsibility of business. Perhaps it is my responsibility as a reviewer to make some penetrating comment or other, but I just cannot think of a thing to say.

A few final words about the books. These authors have done their tasks well. My preference is for the Wyllie book, partly because it does more than the others to relate ideology to reality, partly because of its superb presentation. The thread of analysis is clear always, the writing is sometimes delightful. Wyllie figured out exactly what he wanted to say, and he says it with utmost

precision in a minimum of space. In Diamond's book, by contrast, the line of argument is often obscured by a mass of unnecessary quotation. My chief objection to Prothro's book is its failure to analyze what elements, if any, were new in the 1920's in the philosophy of organized business and why they emerged when they did.

But these adverse remarks, even if they are justified, relate only to minor flaws in three first-rate books.

RAY GINGER

New York City

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History of Marshall Field and Company, 1852–1906. By Robert W. Twyman. Philadelphia, University of Pennsylvania Press, 1954. Pp. 249. $5.00.

Mr. Twyman has written a detailed but unenlightening company history. On the credit side, the reader will find a factual and compulsively documented account of how Marshall Field and Levi Leiter took over the business of Potter Palmer in 1865, how Field gained sole control in 1881, and what happened to the firm down to Field's death in 1906. Anyone looking for raw data concerning the rise of this particular company will be apt to discover what he wants in Mr. Twyman's volume.

What will not be found is (1) any serious and sustained attempt to explain or size up Field as an entrepreneur; (2) any coherent explanation of the role of the firm in the life of Chicago; (3) any continuous effort to relate this bit of business history substantively to the broader economic landscape of the late nineteenth century.

Since the book yields no significant conclusions, it is perhaps appropriate that it should end as it does in mid-air. The last, inconclusive sentence of the text, stressing the growing importance of retail over wholesale trade in the Chicago area, gives way to Table XIV. And that's that. (Or almost that: 56 pages of footnotes follow; for 171 pages of text this is indeed generous.)

Mr. Twyman, who wrote the *History of Marshall Field* originally as a doctoral dissertation, plans to complete his story in another volume, taking the firm through its first hundred years. Since he is dealing with potentially interesting material, this reviewer would like to insert the plea that he use it less woodenly, that he focus on real questions and organize his material so as to answer them and, above all, that he realize that institutional history is composed of the decisions taken by real men in a real world. Unless the men come to life and the world is made understandable both to author and to reader, the detailed institutional decisions taken are by themselves meaningless. No such sense of reality animates Mr. Twyman's first volume: may the next *Field* be greener.

ELSPETH ROSTOW

Massachusetts Institute of Technology

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Industrial Voyage. By Paul W. Litchfield. Garden City, New York, Doubleday and Co., Inc., 1954. Pp. 347. $4.50.

If only more businessmen wrote like Mr. Litchfield, the lot of the business

historian would be a good deal easier. *Industrial Voyage* is at one and the same time an illuminating autobiography of a distinguished American industrialist, a history of the Goodyear Tire and Rubber Company from its shoestring beginnings to its present eminence, and a record of technological change in the rubber industry over a very important fifty-year period. In addition, Mr. Litchfield has reflections on the role and conduct of business, labor relations, and other matters which will well repay reading. It is, in short, a book with an appeal for a variety of readers — including those who just want an enjoyable book.

Two features of Litchfield's career may be picked out as calling for emphasis: his association with the growth of the rubber industry as a whole, and his role in the development of the Goodyear company. With regard to the first point, the phenomenal expansion of the uses of rubber during the last half-century scarcely requires comment. It is, indeed, very neatly summed up in an observation by the author; at one time he figured out that in his capacity as a Goodyear executive he had been responsible for the purchase of one-eighth of all the rubber produced in the world since Columbus first discovered the commodity. This expansion has involved a number of important technological changes, with most of which P. W. Litchfield was directly concerned. The list includes the substitution of the straight-side for the clincher tire, the development of cord fabrics, pneumatic tires for trucks and aircraft, experiments with airships (in which Litchfield still believes strongly), and, most recently, synthetic rubber.

In explaining how he got into the rubber business, Litchfield flatly contradicts Hugh Allen's *House of Goodyear* (1943). Allen states that Litchfield, as a senior at M.I.T., foresaw the future of rubber and consciously prepared for a career in the industry, whereas Litchfield (p. 56) says that when he graduated in 1896, rubber was the last thing he ever expected to go into. However, these were "hard times," and after six months of looking for a job he landed in a rubber factory at Reading, Massachusetts. The plant manager had decided that the plant needed more technical knowledge. Just the same, he started in by washing raw rubber, work that he describes as "wet, dirty, monotonous, and very smelly." [1]

This was merely apprenticeship. His life work really began in 1900, when he went to Akron at the invitation of Frank Seiberling — turning down an offer from a bigger company because he, like Seiberling, wanted to concentrate on making tires. Litchfield's position in those early years of the Goodyear organization illustrates neatly the difficulty of classifying executive functions. He rose from shop superintendent to vice-president without, as he points out himself, changing his job. Regardless of title, he was in charge of production. He was, in fact, a member of a managerial team — Seiberling, the promoter, Charles Stadelman, the salesman, and Litchfield, the production expert. They built up Goodyear, and, curiously enough, each in turn was to be its president — Stadelman after the crisis of the early '20's forced Seiberling out and Litchfield after Stadelman's death.

The discussion of the Goodyear reorganization in the 1920's provides some valuable insights into the relationship between the banker and the industrialist,

[1] Mr. Litchfield's several references to the smell of the early rubber factories is quite a tribute to their pungency. A man who had spent four years at M.I.T. would not ordinarily regard working in the presence of a variety of odors as anything abnormal.

in which the banker comes out with much more credit than he usually is given in popular legend. There is also a detailed description of the company's policy in labor relations, including the comment that the author, who had occasionally been called a socialist for setting up an Industrial Assembly at Goodyear with considerable authority to regulate wages and working conditions, found himself unable to accept many of the union policies that came in with the New Deal. The description of Goodyear's worldwide expansion is also well worth studying, even if one does not accept the verdict of the associate who was overheard to remark that the Export Department had been founded because "Litch likes to travel."

The Litchfield story certainly offers a conspicuous illustration of the engineer in business; whether it is a typical illustration or not is another matter. When one considers that his contemporaries at M.I.T. included Alfred P. Sloan, Gerard Swope, and Irenee du Pont, it is possible to argue that Litchfield personifies a new stage in American business management in which a greater share of executive responsibility was to be entrusted to the technologists. On the other hand, the qualities these men possessed are not automatically conferred with an engineering degree. The path of wisdom here seems to be to settle for an indisputable fact: *Industrial Voyage* is an unusual book about an unusual man.

JOHN B. RAE

Massachusetts Institute of Technology

* * *

Robert Estienne: Royal Printer. By Elizabeth Armstrong. New York, Cambridge University Press, 1954. Pp. xxi + 310. $10.00.

Though such distinguished scholars as Lucien Febvre and Daniel Mornet have for years pleaded for research in the economic and business aspects of publishing, their appeals have largely gone unheeded and the amount of significant investigation remains disappointingly scant. Yet, if it is true that the printing press has been for some centuries the main means for the expansion of communications and education, the importance of such research should be obvious, involving, as it does, nothing less than inquiry into the physical means by which the structure of civilization has been erected. Such research would be, moreover, strategic in still another sense, for it would offer an opportunity to explore the relationship between problems most often considered in isolation. The means by which publishers have attempted to reduce their risks by creating consumer demand for certain kinds of books is a problem not only for business history but for the history of literary taste as well; the licensing of books by central governments represented in part an effort to guarantee markets to individual publishers, but it was also a chapter in the history of censorship; book prices are economic indexes, a function of costs and profit margins, but considered in terms of their effect on the sale and distribution of books they are as much the concern of the historian of ideas as of the historian of business.

Mrs. Armstrong's biography of Robert Estienne, the oustanding figure of the Paris booktrade during the French Renaissance, when that trade was a crucial agency in disseminating the scholarly and religious ideas of the period, gives us some fascinating glimpses of the relationship of business to intellectual history,

though, particularly to readers of this magazine, it must be pointed out that her sources yield more light on the latter than on the former.

Robert Estienne's father had been a printer, his brother was a printer, some of his sons became printers, and he married the daughter of a printer. The degree to which his business enterprise represented his family organized for economic functions can perhaps best be illustrated by his marriage contract. Of his wife's total *dot* of 1,000 livres from her father, 600 was payable in cash on the wedding day, 200 was the value of her trousseau, and 200 was to be delivered "'in volumes of books . . . such as the said Estienne shall choose and select, and at trade price.'" But the real clue to the understanding of Estienne's career is to be found in the variety of business functions he performed. In the mid-sixteenth century the book trade had not yet been split into its essential components of publishing, printing, and selling. Estienne and most of his contemporaries performed all of these functions. As a printer he innovated the use of the new Garamond type faces; as a bookseller he sought to market the products of his presses and, in connection with that function, experimented with such rudimentary forms of advertising as trade-marks and catalogues and sought to minimize the risks of pirating by obtaining royal privileges. But crucial to his whole operation was the need to provide a constant flow of copy so that his presses could be profitably run; Estienne was, therefore, also a publisher, but unlike some of his colleagues he did not extend his publishing activity by employing other printers, alone or in partnership. The classical problem of the publisher-printer — how to feed his press with a regular flow of copy — he solved largely by providing the copy himself, and at this point Estienne the businessman merges into Estienne the scholar. In all probability Estienne himself wrote or edited approximately one-fourth of the 460 or 470 editions he published during the years he was in Paris — Greek and Hebrew editions of the Bible, dictionaries and thesauruses, editions of the classics, schoolbooks. These latter, for which there was a brisk demand, gave work to the presses, and yet were not so urgent that they could not be put aside when Estienne wished to turn to his real interest, publication of the Bible. Here, too, the interpenetration of business and nonbusiness considerations is complete; for his business interest in publishing the Bible led him into the scholarly search for original texts and his concern for reaching down into a new market, that of the ordinary educated reader, led him unwarily into the domain of exegesis, the privileged preserve of the theologians of the Sorbonne. In 1550 Estienne, the king's printer, was forced to flee Paris to the sanctuary of Calvinist Geneva. In some inexplicable fashion he was able to take his supply of types with him, and within a few months the words "At the Olive-Tree of Robert Estienne" were appearing on the title pages of the productions of his Geneva press.

What Mrs. Armstrong has given us is grist for the mill of business history and the history of the Renaissance and Reformation and, more important, for the synthesis of both.

SIGMUND DIAMOND

Harvard University Research Center in Entrepreneurial History

* * *

The Armstrongs of the Great Western. Their Times, Surroundings and Contemporaries. By H. Holcroft. London, Railway World Limited, 1953. Pp. 140.

The Midland Railway. By C. Hamilton Ellis. London, Ian Allan Ltd., 1953. Pp. viii + 192.

Both of these volumes on British Railways stress mechanical development rather than those economic aspects which hold more interest for the American railway historian. In the case of the Armstrongs, this approach was inevitable as three generations of the family served The Great Western, from the early days of George Stephenson to nationalization. The family were mainly concerned with the locomotives of the standard gauge section and in particular, the northern division of the Great Western. In his preface, Mr. Holcroft states, "While the biographical side is the main theme, opportunity is taken to introduce relevant railway history where it has any bearing on the individuals concerned." But the "relevant railway history" occasionally overshadows the biographical. For example, chapter 4 occupies 13 pages, which contain 17 excellent outline sketches of locomotives and about nine lines of family history. When it is shown that the two Armstrong brothers, Joseph and George, jointly produced 850 locomotives in the 10 years prior to 1877 the emphasis appears to be reasonable.

Hamilton Ellis has given a short general survey of the Midland Railway and of the trains which worked it. He explains that his work does not pretend to be "a learned history" nor does he claim to give a detailed record of all the Midland locomotives. But in spite of the author's disclaimer, the equipment part of the story is quite complete. There are many interesting details describing the development of locomotives, dining cars and sleepers, an experiment with Baldwin and Schenectady engines, the origins of St. Pancras station, and the excellent performance of the first Midland compound engines. The author's opening paragraph, "The Midland was a magnificent railway," sets the tone for his book and when a reader has finished with the volume, he will be inclined to agree.

Both books contain many good illustrations, with pictures of locomotives predominating. In addition, the Ellis book has some fine photographs of stations. Altogether, both works will be of interest to students of the mechanical side of railway development.

JAMES J. TALMAN

The University of Western Ontario

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The Welland Canal Company. A Study in Canadian Enterprise. By Hugh G. J. Aitken. Cambridge, Harvard University Press, 1954. Pp. ix + 178.

Studies in the field of entrepreneurial history in the United States have increased enormously in recent years, largely through the work of the Research Center in Entrepreneurial History at Harvard University. Similar studies of Canadian enterprise have been slow in forthcoming, partly because the energies of economists have been devoted to the pressing problems of Canadian economic development, and partly because the historians in Canada have continued to follow a traditional interest in Canadian political history. The appearance of Mr. Aitken's book on the Welland Canal Company holds out promise that further studies along these lines will be encouraged on both sides of the border.

To Canadians, the Welland Canal is an historical phenomenon, the importance of which has never been denied. However, the fact that the first canal was built as a result of the foresight and energy of private entrepreneurs at a time when Canada was little more than an agricultural economy, would come as a surprise to many. It is this story of the struggles of the entrepreneurial group that fostered the Welland Canal Company that is the theme of Mr. Aitken's book.

The story of the Welland Canal Company does not make happy reading for those interested in success stories of men of great achievement. Rather, to quote Mr. Aitken, it "is a history of muddling and improvisation, of high hopes and cruel disappointments." The original proposal, made in 1818, was for nothing more than an irrigation ditch designed to provide a steady flow of water for power on Twelve Mile Creek. The idea was sponsored by a group of mill owners in the St. Catharines area of the Niagara Peninsula, of whom the leading light was William Hamilton Merritt. The military, political and economic advantages of a canal soon suggested themselves and the plan for a ditch was transformed into a dream of a canal. Plans were made for the construction of a modest link between Lake Ontario and Lake Erie and, in 1823, the Welland Canal Company was granted a charter. Failure to secure sufficient funds from the puny capital sources available in Canada led to an appeal to private sources in New York. J. B. Yates, a famous lottery manager in the United States at a time when lotteries were extremely respectable, became interested in the project and throughout the history of the company proved to be a source of both long-term and short-term credit.

The development of more ambitious plans for the canal coupled with a series of engineering difficulties encountered as construction continued, led to a chronic shortage of capital, which could not be met by appeals either to New York or London. The fortunes of the company became more and more dependent upon loans from the Legislature of Upper Canada and from the Imperial Government. Reliance upon these fickle sources made it increasingly difficult for the directors to appeal to private sources. Attempts to throw off the shackles of the government loans and to restore the canal to complete private control were frustrated by political attacks by the Reformers upon the company. Finally, in 1841, the canal was taken over by the Canadian Government and its era of private control ended.

Although Mr. Aitken casts his story in the mould of entrepreneurial functions rather than in terms of the character of the men who played prominent roles in the company, the personality of these individuals has not been totally suppressed. Both Merritt and Yates were speculators, limited to a short-term view and interested in quick results. Attempts to build the canal as quickly and cheaply as possible resulted in a structure that required constant repair and maintenance. The failure of the canal to meet the expectations of the entrepreneurs stemmed partly from their inability to take a longer view and from the failure of the Legislature of Upper Canada, which sustained the company in its financial needs, to do more than bail out the company in meagre fashion. On the other hand, it is suggested by Mr. Aitken that a longer view might have appalled both the entrepreneurial group and the Legislature to the extent that the canal might not have been built either as quickly or as soon.

Mr. Aitken writes in a clear and interesting style. His chapter on the background history of Upper Canada is an excellent summary of the history of the

period. His discussion of the promotion, construction, financing and entrepreneurship of the canal is well conceived and extremely well written. Unfortunately, his attempt to separate out the interrelated aspects of the company history leads to some duplication and confusion. That it is not more confusing, is a tribute to the painstaking work of the author.

In the modest task that he has set for himself, Mr. Aitken has succeeded remarkably well. He has wisely avoided the easy generalization and confined himself to setting down, in his own words, "nothing which further inquiry or more penetrating analysis might prove false." Historians might argue that the book throws no new light on the history of the period and that its structure is too limiting. However, it is hoped that Mr. Aitken's excursion into this difficult field will encourage both historians and economists to take a fresh view of Canadian history.

O. W. MAIN

University of Toronto

* * *

The Shocking History of Advertising. By E. S. Turner. New York, E. P. Dutton & Company, Inc., 1953. Pp. 341.

Mr. Turner's book deserves consideration here only because it has achieved a favorable reception among intelligent but apparently undiscriminating readers on both sides of the Atlantic. The title is misleading, for only in the loosest possible usage can the contents be described as history. The author has assembled an array of commercial advertisements appearing in England and America from the seventeenth century down to the present — examples of the quaint, the amusing, the disgusting, and varying degrees of the deceptive. Since it is, of course, difficult to present in print samples of radio or television advertising, these two media are discussed rather than exemplified.

There is no serious attempt to show the economic factors (other than greed) which underlie the great expansion of advertising during the past two centuries. And, while various advertisements are occasionally related to their cultural environment, such efforts are so sporadic and so limited as to fail almost completely to give the subject adequate perspective.

Even if such faults had been remedied the book would still fail to qualify as a serious historical undertaking simply because it is so one-sided in its approach. It is not a tirade against advertising. Instead, the author never moralizes, never raises his voice, contenting himself with a brief good-humored or cynical comment or, more often, no comment at all — merely a straightforward quotation. The examples he has chosen speak for themselves!

This apparent objectivity is deceptive, for the author, like many of the advertisers he cites, has quietly refrained from giving us more than one side of the story — the seamy side. One might argue that the whole story, presented in well-rounded and balanced fashion, would add up to an indictment of commercial advertisers. Possibly so, but does it help matters to suppress the fact that much advertising is accurative, informative, and helpful to the consumer?

Thus the title of Mr. Turner's book is misleading in still another sense. For, strictly speaking, it is not the history of advertising as such which is shocking but rather the *use* of advertising in the hands of unscrupulous, misguided, or

thoughtless people. This distinction is easily overlooked, but it is fundamental. Failure to recognize it aggravates the problem of understanding advertising and doing something constructive about checking its abuse. Advertising itself is simply a means of communication on a large scale. It arouses anger, disgust, or admiration because of the purpose to which it is put and the manner in which it is done. Mr. Turner is too intelligent not to recognize that advertising can be a constructive as well as a destructive activity. Nonetheless, his book concentrates upon examples of exaggeration, fraud, and gross violations of "good taste," and it is not until the very last sentence that he connects advertising explicitly with the men who prepare it and those who respond to it. Whether it is "good" or "bad" or "shocking," as with many other instruments of man's devising, depends on how it is used.

At no point does the author face the important question of alternatives, although it is clear, if one reads closely, that he is aware of some. One alternative, as British experience proves, is a government broadcasting corporation with officials jealous of its monopoly and so certain of their judgment about what is good for the public that they would suppress all competition within the country. Some of them would even like to jam the waves so as to prevent misguided listeners from receiving programs which originate in foreign sources. This in England in 1951 . . . !

One seems driven to the conclusion that Mr. Turner has written not to enlighten but to entertain. In this he has succeeded. Perhaps it is but a logical extension of his cynicism that the author has permitted his book to appear under a misleading title and wrapped in a dust jacket which misrepresents the contents.

Ralph M. Hower

Harvard Graduate School of Business Administration

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Chartered Banking in Canada. By A. B. Jamieson. Toronto, Ryerson Press, 1953. Pp. 394.

Mr. Jamieson has undertaken to describe Canadian commercial banking for the young man who has elected a career in Canada's chartered banks. It is a specific and well-defined purpose, and Mr. Jamieson stays with it from one end of his book to the other. The neophyte should know something about the historical development of the system in which he works, and so half the book is given to that; and he should also know as much as possible about current practice — how the banks are organized and administered, what loans are made and how they are secured, where and when foreign exchange is bought, and similar matters of day-to-day banking — and so the rest of the book is a guide to Canadian procedure. No doubt there are other things the young banker should know about banking, but these are probably taken care of in later sections of the curriculum Mr. Jamieson envisages; and in the meantime, the material here provided is all worth the beginner's study.

The purpose of the book being what it is, it follows that its tone is pretty consistently descriptive and institutional. There is no monetary theory, nothing very much on the distinctive problems of the Canadian economy, and surprisingly little in the way of statistical information. What is given is what the branch manager should see as he looks south to his teller's wicket and north

to his head office. But the choice of material is deliberate, and not a sign that a more ambitious project has failed: the author has set himself limits and has quite properly stayed within them.

Since the work is designed for a special group of readers, it may seem that its interest to others will be slight. This is not altogether true. The general reader, admittedly, will discover that very few concessions have been made him. Mr. Jamieson's style is flat, and he does not often abstract or generalize. But well over 40 years in Canadian banking have given him the authority that only such a background can provide. He knows his material, he knows it thoroughly. Bankers, students of money, anyone who wants the facts of banking procedure in Canada, will find "Chartered Banking in Canada" a reliable and detailed reference. This is the more true because no adequate substitute exists — the literature on Canadian banking is very thin and largely out of date. There is a large gap that the present study partly fills.

One warning should be issued. Mr. Jamieson's book is only recently in print, but even since its appearance there have been important changes in Canadian banking law, and the beginning of important changes in banking practice. The decennial revision of the Bank Act in 1954 (and the concurrent revision of related legislation) established a variable legal reserve ratio for the chartered banks, and at the same time allowed them to enter the field of mortgage lending. Meanwhile, partly by virtue of changes in the law, partly because of the earnest persuasions of the central authorities, something that the Bank of Canada calls a money market has developed. It is already active and may sometime be purposeful. Until there is a revised edition of Mr. Jamieson's work, its reader should be careful to supplement it with accounts of these novelties. For the present, the legislation itself will serve him.

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Evolution of Cost Accounting to 1925. By S. Paul Garner. University, Alabama, University of Alabama Press, 1954. Pp. 416. $6.50.

The bookkeepers of old have come down through the years in the minds of Dickens readers as a rather menial lot of hard-working, ill-paid fellows. How happy some of these servants would be if they could see the interest with which today's business historians and accountants study their records, though they might not be so pleased to realize that their labors alone have kept their masters from passing into oblivion.

While Dr. Garner's book will be of greatest interest to accountants, it can be read profitably by business historians. The latter will not only be interested in the references to underlying business conditions and developments which gave rise to the cost theories and practices discussed but will gain additional accounting knowledge which should be helpful to their interpretations of business records.

Cost accounting is purposive in nature and, while the first cost accountant is unknown, the need for cost accounting began when production moved from the home to the workshop. Dr. Garner's record begins with the Medieval Era and illustrates primitive cost accounting for Genoese maritime ventures and for

businesses such as those of the Fuggers, the Medici, and the Del Bene firm of wool manufacturers.

These early examples of cost accounting are presented as a matter of interest but not with an implication that such practices were widespread. Although double-entry bookeeping was well developed in these early days, cost accounting did not really develop until the rise of the factory system in the Industrial Revolution and, in fact, some authorities hold that it originated at that time. Dr. Garner's major interest in the earlier period ". . . is to indicate that the cost of production concept was recognized and even fairly well understood centuries before the Industrial Revolution."

Though the rise of the factory system brought with it a real need for cost accounting, its practice developed slowly, and writing on the subject developed even more slowly. Dr. Garner's study is based largely on accounting literature rather than on accounting records and his treatment of cost accounting evolution up to 1885 is limited to some extent at least by the scarcity of cost accounting literature prior to that date. This scarcity is attributed by various authorities to such factors as preoccupation with production problems, lack of interest in writing on the part of practitioners, and the exercise of secrecy with respect to accounting techniques as well as accounting figures. In addition to these factors, authorities agree that interest in cost accounting lagged far behind the developing needs for new techniques in this area. For example, although increasingly large investments in plant and equipment involved problems in depreciation, and although supervision and other costs were rising, factory overhead accounting was practically neglected prior to 1900. Emphasis was on accounting for prime costs, i.e., material and labor.

The book deals largely with cost developments in England and the United States, though there are some references to the writings and practices of other countries. Prior to 1900 English cost accountants appear to have made the greatest contributions to the development of cost accounting. After that date American writers and practitioners took the lead and have held it ever since.

After a chronological approach to cost accounting in the beginning of the book, Dr. Garner changes to a discussion of nine broad accounting areas, divided into as many chapters. These cover the evolution of accounting for: raw materials, direct labor and manufacturing burden, for the integration of cost and financial records, for interdepartmental transfers of product, for by-products, for waste material and scrap, for purposes of inventory valuation, and for process and job-order methods. Under one title or another a large part of this material is concerned with the evolution of accounting for factory burden.

The book is a scholarly presentation and a useful contribution. The business historian will wish that the study had involved more use of original accounting records rather than to have placed such heavy reliance on accounting literature. The examination of original sources, however, is an extremely time-consuming task and the coverage from any single study is limited. By basing his study on available literature Dr. Garner achieved broad coverage and made a significant contribution in an area that had been neglected. He would, I am sure, be the first to admit that there is room for additional studies of additional types within this area.

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Books Reviewed—continued

The Business History Review

A quarterly journal specializing in the history of business

Development of administrative methods

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Roles of management and labor in industrial expansion

•

Growth of business functions,
such as marketing and investment banking

•

Relation of business attitudes and actions to social change

•

Biographies of leading businessmen

•

Histories of important business firms